



**SOLOMON  
SYSTECH**

**Solomon Systech (International) Limited**

HKSE : 2878

Annual Report 2009



# **RESILIENT AGAINST ADVERSITY**

*solutions in silicon*

## **CORPORATE PROFILE**

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

## **VISION**

Provide the ultimate silicon solution for every display system

The elastic rubber bands assembled together forming a globe embody strength, resilience, team spirit and perseverance, representing Solomon Systech as a unified team striving together for the brightest future, and advancing to the forefront of the technology and the industry. Through the strength of our strong organizational structure, we are resilient against adversity while constantly and efficiently moving forward.

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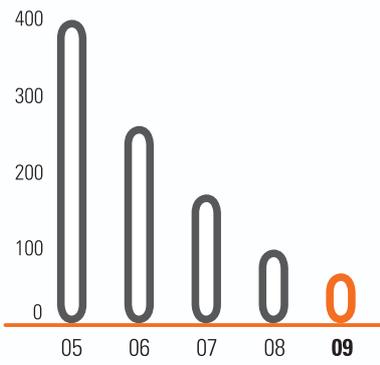
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## FINANCIAL HIGHLIGHTS

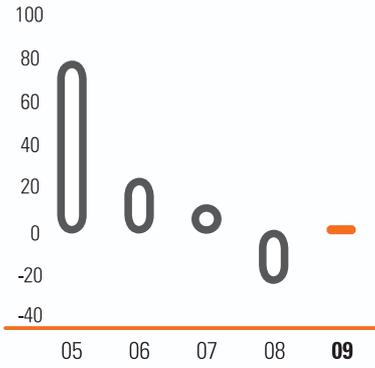
|                           | <b>2009</b>         | 2008         |        |
|---------------------------|---------------------|--------------|--------|
|                           | <b>US\$ million</b> | US\$ million | Change |
| Sales                     | <b>61.8</b>         | 92.8         | -33%   |
| Gross profit              | <b>20.4</b>         | 16.9         | 21%    |
| Net profit/(loss)         | <b>0.7</b>          | (23.4)       |        |
| Total assets              | <b>150.2</b>        | 162.3        | -7%    |
| Shareholders' funds       | <b>135.8</b>        | 143.8        | -6%    |
| US cent                   |                     |              |        |
| Earnings/(Loss) per share | <b>0.03</b>         | (0.97)       |        |
| Dividend per share        | <b>0.13</b>         | 0.39         | -67%   |

- Sales amounted to US\$61.8 million
- Profit attributable to the equity holders of the Company was US\$0.7 million
- Basic earnings per share was 0.03 US cent (0.2 HK cent)
- The Board proposed a final dividend per share of 1 HK cent (0.13 US cent) for the year ended 31 December 2009
- Book to bill ratio for the year ended 31 December 2009 was close to 1.0

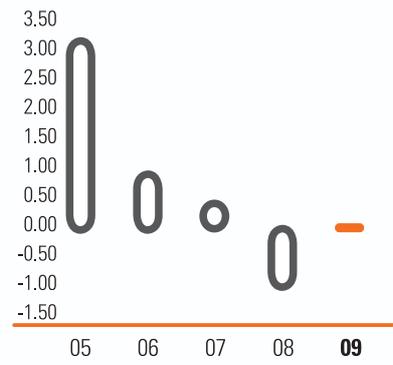
**Sales**  
(US\$ million)



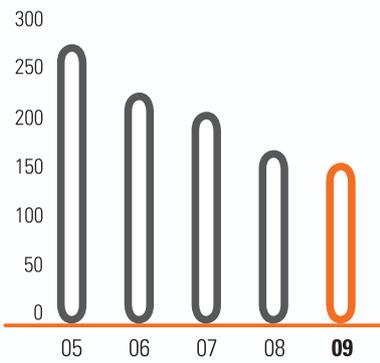
**Net Profit/Loss**  
(US\$ million)



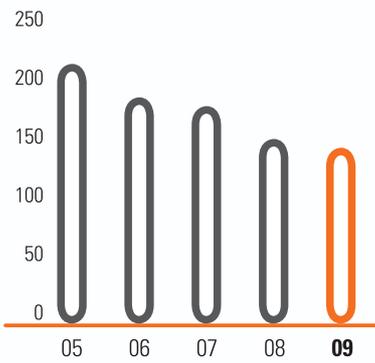
**Basic Earnings/Loss per Share**  
(US cents)



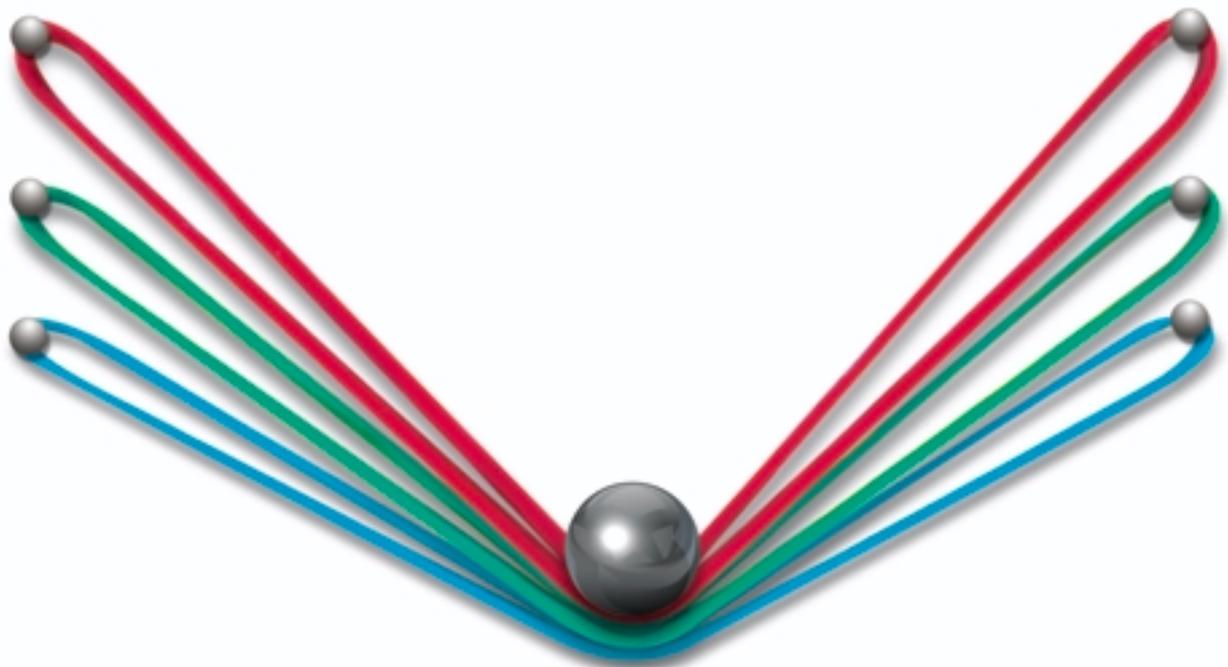
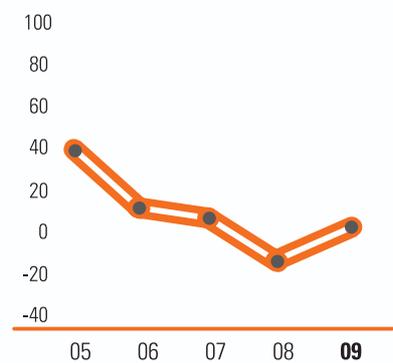
**Total Assets**  
(US\$ million)



**Shareholders' Funds**  
(US\$ million)



**Return on Equity**  
(%)



## CHAIRMAN'S STATEMENT



We have successfully overcome the difficult times and turned our business from a loss in 2008 to a breakeven status in 2009.

**SUN, Patrick**  
*Chairman*

The global electronics industry is undergoing a major step in its evolution while essentially restructuring. It was a hardware dominated world some ten years ago where electronic devices drove the market and defined success. But as the world progresses into the internet age, the situation has markedly changed. Product developers have shifted their focus to application platforms where winning strategies are no longer solely fixed on the device but the software and applications that run on it. The power of the internet is now extended further through cloud computing, whereby shared resources, software and information are provided to computers and other devices on-demand, like a public utility. This transformation presents great opportunities for the service providers, who support internet platforms and data servers, and the content creators, to lead the market and create new businesses and entire new business segments. Moving the leading edge from hardware to applications and services is regrouping the whole supply chain. Solomon Systech, as one of the major links in the supply chain like other semiconductor companies, has adapted by broadening our capability from providing

components to supporting total system solutions. Along the way we have aligned our business and practices more closely with sustainable development and towards green energy which is an overarching trend for all businesses in the future.

The semiconductor industry was not immune to the global economic slowdown in 2009 but its revenue decline of 10.5% from 2008 was relatively mild. The industry still benefited from robust demand, especially from notebooks, handsets and LCD TVs as they came with better price performance. These current volume drivers and their successors share a common thread – a rising need for better display solutions. While 2009 saw increasing progress in technological development of solutions for cloud computing, smart power grid, 4G LTE, 3D TV and LED lighting, the linchpin of these and future demand growth enablers still remains the semiconductor. Market researchers have forecast the semiconductor industry to enjoy a CAGR of more than 10% during 2010 - 2012. Riding on the continuous growth outlook of the semiconductor industry, in concert with the rising expectations of consumers for more fun and functions on devices means that display solutions should see resilient demand prospects.

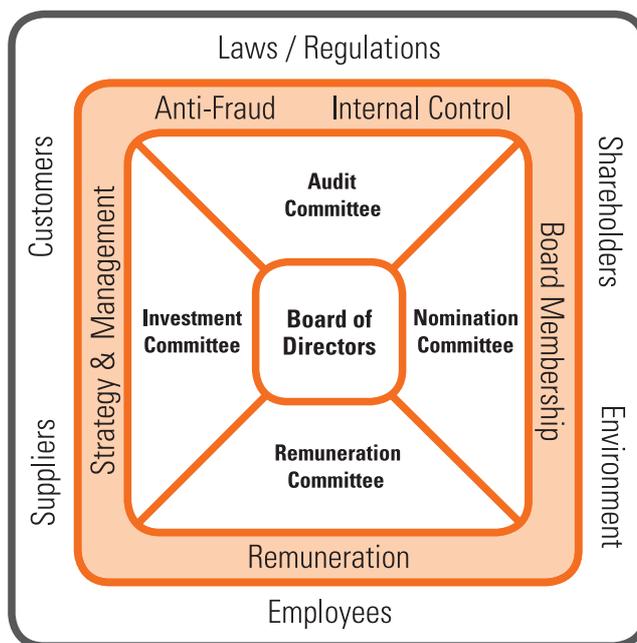
The financial turmoil notwithstanding, there have always been challenges in the semiconductor industry. To keep pace with fierce competition and to keep up with the times, we have to move fast with new technologies. We have been working hard at transforming our business to keep up with the times these last few years. We have successfully navigated these difficult circumstances and turned our business from a loss in 2008 to breakeven status in 2009.

As Chairman of the Board, I continued to lead fellow members in reviewing the Company's strategies and directions, and enhancing external relations and corporate governance, with the aim of

balancing and safeguarding the interests of all stakeholders including the Company, shareholders, customers, business partners, employees and the community.

### The First Decade

Established in 1999, Solomon Systech flourished during our first decade meeting daunting challenges while scoring spectacular successes along the way to our present position as a major global supplier of display ICs. Solomon Systech has grown from a small start-up company into a publicly listed company, and became a global enterprise with the broadest range of display technologies, supporting global customers with proprietary IC products and system solutions through technology centers and offices around the world. We have developed our own intellectual properties ("IP") on IC technologies, innovated in leading IC products and realized innovative end products. Solomon Systech's many achievements over our first decade are the proud results of a dedicated proven team who has always risen to challenges to create a successful and sustainable business.



Solomon Systech's Corporate Governance Structure

## CHAIRMAN'S STATEMENT (continued)

### Corporate Governance

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

As at 31 December 2009, the Board comprised 10 directors, of whom 5 are executive directors, 2 are non-executive directors and 3 are independent non-executive directors.

Under the Board, there are four committees – the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Committee. Led by different members of the Board, each committee is dedicated to achieving and maintaining high corporate governance standards, which are critical to safeguarding the integrity of the Company's operations and maintaining investors' trust in the Company.

The Corporate Governance Report pursuant to Appendix 23 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited on page 29 will give more details on the subject.

### Social Responsibility

All of Solomon Systech's products have been RoHS compliant for years, and the Company itself has earned the certification of the ISO 14000 standard for environmental management systems. We will continue to participate within and promote the green movement in the industry and in the community at large. Our Green Power business, which provides energy-saving LED lighting design systems, underscores our commitment to protecting the environment.

As a good corporate citizen, Solomon Systech has been active in honoring its social responsibilities towards the community. The Group and its staff have contributed over HK\$220,000 in the year to various charities including donations to the relief fund for victims of Typhoon Morakot in Taiwan, the One Laptop Per Child program and more. We have also supported environmental campaigns, participating in different activities including tree planting days and Earth Hour 2009. More information about the Group's corporate social responsibility activities can be found in the "Social Responsibility" section.

### Shareholder Value

The Group managed to return to profitability this year through extra effort in diversifying our business, changing product mix to include more high-end products, implementing stringent expenses control and also managing our investment in financial assets cautiously. Net profit in 2009 was US\$0.7 million while gross profit margin was brought up to 33.0%, which is above the industry average.

Solomon Systech shipped some 93 million units of products in 2009. We successfully generated new business with our display system solutions such as a notable design-win in pico-projector applications from a top-tier brand name customer. All-in-all, the business strategy in diversifying our products, bringing in new customers and addressing different new market applications have contributed to the overall sales and profit margin.

Regarding the expenses control implemented in response to the financial crisis, some staff related cost saving measures were relaxed at the end of 2009 in order to resume the working level manpower to bring up the Group's overall productivity and performance, while senior management and directors continue to take up accountability with reduced remuneration until the Group's business has resumed stable growth.

As the Group has successfully overcome the difficult times and turned the business from a loss in 2008 to a breakeven status in 2009 and the relatively cash-rich position, the Board recommended the payment of a final dividend of 1 HK cent per share for the year ended 31 December 2009.

We will continue to review our development plans and cash position from time to time to ensure we have an optimum capital structure for maintaining a good balance between the interest of shareholders and the Group's business needs.

### Prospects

While the global semiconductor market is forecast to reach US\$276 billion in 2010 according to Gartner, we remain cautious as the recovery may be fragile with conditions in 2010 only appear good in comparison to 2009.

In the long run, global chip sales especially solutions targeted at display applications and green power are expected to rise along with the electronics industry which still has tremendous potential yet to be realized.

With the scope of display applications growing, the display IC and system solution market will remain as Solomon Systech's main development focus. The key technology drivers for growth will be digital TVs, 3D TVs, eBooks, green power products and new display technology together with the widely adopted LCD display application. We will continue to invest in R&D to strengthen our technological capabilities. At the same time, we will continue to be vigilant in monitoring changes in the global market and work hard at strengthening relations with our customers.

We are determined to bring added value to our customers and long term benefits to our stakeholders.



**SUN, Patrick**

*Chairman*

Hong Kong, 20 April 2010

The current volume drivers  
and their successors  
share a common thread -  
a rising need for better  
display solutions.

## MANAGING DIRECTOR'S REVIEW



We have strategically diversified our business with more high-end products and value-added solutions, a new customer base and expansion of our market.

**LEUNG Kwong Wai, Humphrey**  
*Managing Director*

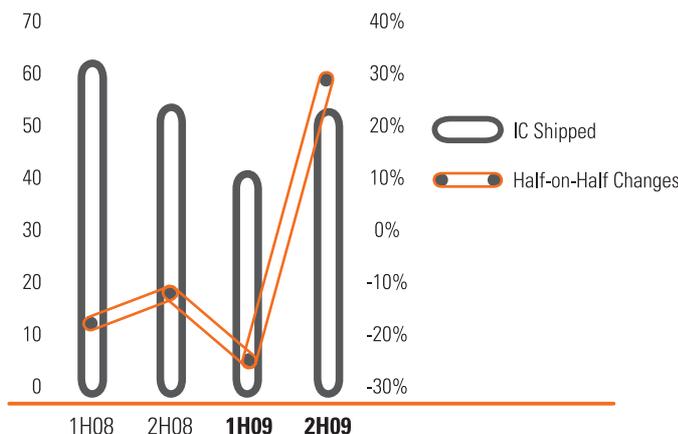
### **Our Business Resiliency**

The Group encountered very challenging market situation throughout the year in 2009. Slow market demand, obsolete inventory, relentless pressure to lower selling prices and the conservative market response to new applications etc, all these factors impacted on the Group's performance for the year. Our customers faced similar issues as well, which made the overall situation difficult for everyone.

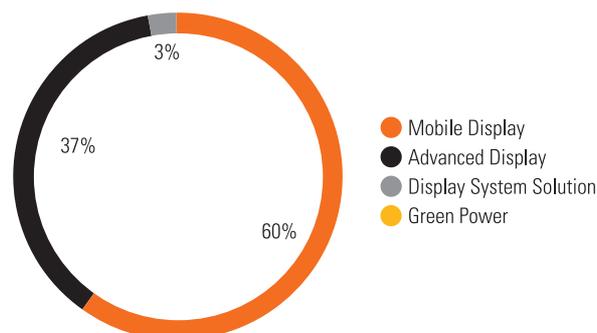
In facing adversity, one advantage that Solomon Systech had was our seasoned team of professionals with an average some twenty years of individual experience in the global semiconductor industry, confidently rose to the challenges and successfully managed the downturn. We strategically diversified our business as previously planned, with more high-end products and value-added solutions which provided us a new customer base and access to an expanded market. We closely monitored inventory, minimized inventory scrap and sold-off obsolete inventory that were carried over from 2008. We boosted our manufacturing productivity through product yield improvement and full utilization of our own manufacturing assets. We managed to cut our total expenses by 27% in 2009 through the implementation of an array of expense control and belt tightening measures. We also protected our financial assets in a prudent manner. All these actions resulted in a return of the Group to profitability in 2009 despite a lower sales revenue over 2008, with a net increase of gross profit margin to 33.0% for the year, an improvement of 14.8 percentage points from 2008.

## Product Shipment

Million Units



## 2009 Product Shipment by Product Family



### Signs of Improvement

Global market demand showed signs of recovery during the second half of 2009 and so did Solomon Systech's business. In 2009, Solomon Systech shipped 93 million units of ICs. Although the shipment quantity in 2H 2009 was down by about 3% year-on-year, it increased by about 29% from 1H 2009.

ICs for Mobile Display, including m-TFT, Color STN, monochrome STN and touch panel applications, remained as Solomon Systech's principal product family which contributed around 60% to the total unit shipment. Advanced Display product family, which includes OLED and e-paper ICs, was the second largest. There was a notable increase in Display System Solution IC shipment during the year where more than 2 million units were shipped, whereas Green Power product shipment was only beginning.

However, in spite of these encouraging signs, we foresee that the global supply chain capacity will become tight in 2010 when the market demand picks up faster than the supply. Thus, with the prospects of a rise in manufacturing cost, shortage of supply and longer product delivery lead time, we need to remain cautious in managing our business in 2010.

### Celebrating Our First Decade

In 2009, we celebrated the 10<sup>th</sup> anniversary of Solomon Systech which also presented a unique opportunity to take stock of our achievements and unfulfilled possibilities, as well as chart a course for improvement. We take pride in having shipped over 1 billion units of display ICs during our first decade and are gratified that our IC products are applied in a wide variety of consumer electronic products around the world. Our success is underlined by our position as a major supplier of mobile LCD driver IC, the world's largest supplier of Passive Matrix OLED Driver IC supplier and the first global high volume supplier of e-paper ICs. Further testimony is offered by our garnering four consecutive China Chip Awards (中國芯) from 2006 to 2009 while also being honored as one of the best IC design enterprises. Solomon Systech also reigned as China's top public fabless IC company from 2004 to 2007.

Reflecting over the ten years, "We make things happen", the theme of our 2004 Annual Report, was an apt description of our first five years in the start-up stage. The second five years have marked our business transformation from an IC component supplier to a system solution provider. The principal changes involved formation of new business units, development of new expertise with technology know-how from system to software and to large scale IC design integration, expansion to new market applications that led us to a completely new set of customers, and also creation of multiple new revenue streams for profitability improvement in the long run.

## MANAGING DIRECTOR'S REVIEW (continued)

### The Business Units

To provide a clearer view of Solomon Systech's business, an outline of each business unit is set out below:

| Business Unit                   | Key Product   | Major Market Applications   |
|---------------------------------|---|---|
| <b>Display IC Business</b>      |   |   |
| Mobile Display                  | <ul style="list-style-type: none"> <li>• LCD Driver IC</li> <li>• Touch Panel IC</li> </ul>   | <ul style="list-style-type: none"> <li>• Mobile phone</li> <li>• Personal navigation device</li> <li>• Portable media player</li> <li>• Mobile digital TV</li> <li>• AV product</li> <li>• Office equipment</li> </ul>  |
| Advanced Display                | <ul style="list-style-type: none"> <li>• OLED Driver IC</li> </ul>  | <ul style="list-style-type: none"> <li>• MP3/MP4 player</li> <li>• Portable media player</li> <li>• Mobile phone</li> <li>• Industrial appliance</li> <li>• Health care product</li> </ul>  |
|                                 | <ul style="list-style-type: none"> <li>• E-paper Driver IC</li> <li>• System IC</li> </ul>  | <ul style="list-style-type: none"> <li>• Electronic shelf label</li> <li>• E-card</li> <li>• Storage device</li> <li>• Decorative display applications</li> </ul>   |
| Large Display                   | <ul style="list-style-type: none"> <li>• LCD Driver IC</li> </ul>   | <ul style="list-style-type: none"> <li>• LCD TV</li> <li>• LCD monitor</li> <li>• Notebook computer</li> </ul>  |
| <b>System Solution Business</b> |   |   |
| Display System Solution         | <ul style="list-style-type: none"> <li>• MIPI IC</li> <li>• Graphic Controller</li> <li>• Multimedia Processor</li> <li>• Image Processor</li> <li>• Software Solution</li> </ul> | <ul style="list-style-type: none"> <li>• Mobile phone</li> <li>• Mobile digital TV</li> <li>• Pico-projector</li> <li>• Personal navigation device</li> <li>• eBook</li> <li>• Android based mobile internet device</li> <li>• Portable media player</li> <li>• Study machine</li> <li>• Digital photo frame</li> </ul> |
| Green Power                     | <ul style="list-style-type: none"> <li>• LED Driver IC</li> <li>• LED Power Module</li> <li>• LED Backlight Unit</li> </ul>   | <ul style="list-style-type: none"> <li>• LED lighting (indoor &amp; outdoor)</li> <li>• LED display</li> <li>• Notebook computer</li> <li>• LCD Monitor</li> <li>• LCD TV</li> </ul>  |

Our effort continues in this new decade, in face of different challenges posed by the market, the economy or the industry. We will speed up our product and market development for new businesses for revenue generation and we will dedicate more strategic effort to expand our business in the booming China market.

### 2009 Awards

In 2009, the Group's continuous striving for excellence was affirmed through four industry prizes, two corporate awards and many supplier citations from our customers. Many of these plaudits were presented by authoritative organizations and recognized the Group for its achievements in technology, innovation and corporate responsibility.

As mentioned previously, this was our fourth consecutive year to garner the China Chip Awards (中國芯) and we were recognized as one of the best IC design enterprises in China. Besides, our new

multi-touch capacitive touch panel IC, received high praise in the industry and won the Innovative Product Award from the China Hi-Tech Fair in 2009.

Two of our OLED driver ICs – one with Built-in Touch Sensor, the SSD1351A, and the other with a Built-in Charge Pump, the SSD1306, were honored with Leading Product Awards in EDN Innovation Award 2009.

Apart from industry awards, the Group gained the Hang Seng Pearl River Delta Environmental Award as a Green Enterprise, for our sound environmental management practices. The Group was named as a Caring Company, for the fifth consecutive year since 2005, by the Hong Kong Council of Social Service for our continuous effort in good corporate citizenship, concern for the society and caring for our own employees.

Our effort continues in this new decade, in face of different challenges posed by the market, the economy or the industry. We will speed up our product and market development for new businesses for revenue generation and we will dedicate more strategic effort to expand our business in the booming China market.

### Technological Development

The Group places heavy emphasis on research and development ("R&D") as we believe R&D is the key to success especially for a technology company like us. While we maintained stringent controls on expenses, we continued to devote a relatively high percentage of 23% of our total sales revenue to the R&D expenses in 2009, which amounted to US\$14.3 million (2008: US\$19.3 million). In particular, resources were dedicated to promising new technologies development in system design, mixed signal high integration IC design, software and application solutions. Examples of new technology include touch panel IP, dual MIPI/MDDI interface, new system solutions for pico-projector and new dimming features in LED lighting controller.

### China Development

The China market, as seen by most people in the industry and corroborated by market research, is truly a huge market with huge business opportunities in 2010 and beyond. According to iSuppli, China's semiconductor market is forecast to grow by 17.8% to US\$80.1 billion in 2010, which is close to 28.6% of the global semiconductor market.

Solomon Systech started up in Hong Kong, where geographically is a gateway to enter the China market. We established the Shenzhen Technology Center in 2000 aiming to expand the Group's business, investment and technical involvement in the Greater China Region. During 2009, we witnessed more business opportunities materializing throughout the country from South China to North China, in a broad spectrum of segments ranging from mobile consumer electronics to major home appliances such as LCD TVs. To make the most of these opportunities, we have forged more strategic partnership with major corporations in China to develop new products and advanced technologies. Our Green Power business is also well positioned to support the energy saving policy laid out by the China government.

In order to better support the Group's activities in China, a new team is set up and will move in a new Beijing office in 2010, with initial

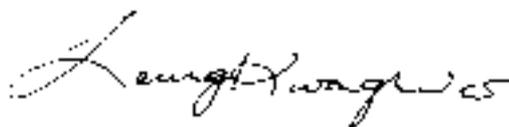
focus on the Large Display business unit, strategic alliances and the Group's business in North China.

### Looking Ahead

As the Managing Director, one of my key responsibilities is building our corporate culture and nurturing future leaders to support the Group's continuous and sustainable growth. Towards this end, leadership and supervisory training programs have been arranged for our senior and junior managers during the last few years. CEO Sharing sessions and mass communication meetings are held from time to time to facilitate and encourage two-way communication. The aim of these activities is to groom new leaders to support our future development while providing a stimulating work environment.

With the changing market situation and the challenges Solomon Systech faces in gaining foothold in new markets, we shall remain prudent in 2010. Our strategic focus for the year ahead will be to: (1) launch new products and technologies to market on time; (2) speed up in the market development for new businesses for revenue generation; (3) dedicate strategic effort to expand our business in the booming China market; and (4) manage the supply chain capacity and product delivery lead time.

There are opportunities and threats ahead. All in all, we have strong belief in the continuous growing electronics market. We believe technology will lead and improve life of the mankind, and make a better world.



**LEUNG Kwong Wai**

*Managing Director*

Hong Kong, 20 April 2010

# INNOVATIVE PRODUCTS AND APPLICATIONS OVER THE 10 YEARS

## LEADING IC PRODUCTS

**1999**  
World's first grayscale 32 MUX LCD Driver Controller

**2001**  
World's first single chip OLED Driver IC with Controller

**2002**  
World's first single chip 2D GIGA CSTN LCD Driver Controller IC

**2004**  
World's first single chip mobile TFT Driver with build-in cap

## INNOVATIVE END PRODUCTS

### Mobile Display

Mobile Phones, Multi-touch Panel Applications, Personal Navigation Devices, Mobile Digital TVs, AV Products, Office Equipment



### Large Display

LCD TVs, LCD Monitors



### Advanced Display

Mobile Phones, MP3, Bluetooth Headsets, Office Equipment, Industrial Applications, Health Care Products, Electronic Shelf Labels, e-Cards, Storage Devices



**2005**

Microdisplay  
Controller for  
binocular display  
module products

World's first high  
volume e-Paper IC  
supplier

**2006**



**2008**

**MagusCore™**  
Multimedia System  
Solution launched

**2009**

Single chip  
capacitive True  
Multi-Touch IC



### Display System Solution

Pico-projectors, eBooks, Personal Navigation Devices,  
Mobile Internet Devices, Mobile Digital TVs,  
Digital Photo Frames

### Green Power

LED Backlighting,  
LED Indoor / Outdoor Lighting



# FINANCIAL REVIEW

## Overview

For the year ended 31 December 2009, the Group's sales was US\$62 million (2008: US\$93 million) and the book to bill ratio stood at 1.0 (2008: 0.8). The effect of the US financial crisis in 2008 spread around the world late in that year and carried over to 2009. The ensuing financial turmoil caused an overall decline in the global semiconductor industry and created a challenging environment for the Group especially at the beginning of the year. The demand for display ICs in the second half gradually revived but annual sales in 2009 was yet to be brought back to 2008 level due to the severe demand drop in the 1H 2009.

## Sales and Profit

The Group recorded a 19% decline year-on-year in shipment quantity, and a 18% year-on-year drop in the blended average selling price of its products which led to net sales of US\$62 million, representing 67% of the 2008 sales. The decline was mainly due to (1) the global financial crisis which drove down demand in early 2009 prior to the launch of international economic stimulus programs; (2) average selling price erosion; (3) lower than forecasted growth for certain target applications that the Group has developed solutions for; and (4) slower than expected development of the Group's new businesses.

Gross profit was US\$20.4 million, up by 21% compared with last year (2008: US\$16.9 million). The Group's gross margin rose to 33.0% from 18.2% in 2008. The increase in gross profit and gross margin were due to higher percentage of products with relatively higher profit margin contributions, and the selling off of approximately US\$2.5 million inventory for which provisions were made in previous years. Inventory scrap was minimal in 2009. The Group has been putting tremendous effort to improving its manufacturing productivity through product yield improvement and full utilization of its own manufacturing assets.

Total expenses, including research and development cost ("R&D expenses"), selling and distribution expenses ("S&D expenses") and

administrative expenses, were US\$26.0 million, down by US\$9.7 million which represented a 27% trim over 2008. The Group implemented an array of expense control and belt tightening measures including headcount reduction, no-pay-leave and other cutback in fringe benefits.

S&D expenses were reduced by 11%. Administrative expenses were down by 33% which was in line with sales. The Group continued to invest in R&D and business development, but was more selective in its R&D spending. R&D expenses were US\$14.3 million which was about 74% of the spending in 2008, though still accounted for around half of total expenses incurred in 2009.

During the year, the Group recognized a total of US\$8.0 million in favorable contributions and approximately US\$1.9 million in adverse contributions respectively in areas other than the core IC business of the Group as listed below:

### *Favorable contributions*

- US\$1.3 million in realized earnings and gains from financial assets at fair value through profit or loss ("FVTPL");
- US\$2.1 million from interest income;
- US\$3.4 million unrealized gains resulted from a mark-to-market valuation of the investments in FVTPL portfolio as at 31 December 2009; and
- US\$1.2 million Hong Kong income tax credit as per Notices of Revised Tax Assessment issued by the Hong Kong Inland Revenue Department in July 2009 for the years of assessment 2005, 2006 and 2007 confirming the tax treatment on equity compensation of Solomon Systech Limited, a wholly-owned operating subsidiary of the Group.

### *Adverse contributions*

- US\$0.8 million share of results of associated companies; and
- US\$1.1 million provision made for the impairment of the investment in an associated company.

As a result, the Group managed to turn around from a loss making position in 2008 to profitability in 2009. Profit attributable to the equity holders of the Company in 2009 amounted to US\$0.7 million (2008 loss: US\$23.4 million).

### Liquidity and Financial Resources

Net cash used in operations during the year was US\$10.1 million (2008 net cash generated from operations: US\$2.8 million). Total cash and bank deposits and equivalents (including other financial assets) of the Group amounted to US\$93 million at year-end, compared to US\$111 million as at 31 December 2008.

The change in cash position was mainly a result of (1) net outflow from operations amounted to US\$10.0 million because of net increase in working capital; (2) dividend payment of US\$9.5 million; and (3) investment in an associated company in the amount of US\$0.7 million.

Regarding the use of cash reserves, the Group will continue to allocate funds for product development, securing production capacity, entering into strategic corporate ventures as well as meeting general corporate purposes. As at 31 December 2009, the Group had no major borrowings other than the US\$0.8 million in a mortgaged bank loan for the purchase of office property in Hsinchu, Taiwan and there were no significant changes in the Group's assets. The Group's cash

balance was mainly deposited in banks.

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.

The Board of the Company recommended the payment of a final dividend of 1 HK cent per share to shareholders whose names appear on the Register of Members of the Company on 9 June 2010. The dividend yield will be of 1.9% based on the average daily closing price of HK\$0.538 for 2009.

### Capital Expenditure and Contingent Liabilities

In 2009, the Group did not make any major capital spending other than investing US\$0.7 million in a strategic corporate venture.

As at 31 December 2009, there was US\$1.5 million capital expenditure approved but not contracted for in respect of certain manufacturing equipment for the Group's manufacturing subsidiary in Dongguan, China. Saved as aforesaid, the Group had no other material capital commitment or contingent liability.

### 2009 Net Profit Elements

|  |  |                         |                                     |
|--|--|-------------------------|-------------------------------------|
|  |  | <b>US\$20.4 million</b> | <b>Gross Profit</b>                 |
|  |  | (US\$26.0 million)      | Operating Expense                   |
|  |  | US\$1.4 million         | Other Income including FVTPL        |
|  |  | US\$3.4 million         | Unrealized Gain in Financial Assets |
|  |  | (US\$1.8 million)       | Strategic Investment Loss           |
|  |  | US\$2.1 million         | Interest Income                     |
|  |  | US\$1.2 million         | Tax Refund                          |
|  |  | <b>US\$ 0.7 million</b> | <b>2009 Net Profit</b>              |

# BUSINESS PERFORMANCE AND OUTLOOK

## Product Shipment

The Group shipped a total of 93 million display IC units during the year, representing a year-on-year decline of 19% (2008: 115 million units). Mobile Display business unit included monochrome STN, color STN ("CSTN"), m-TFT LCD driver ICs and touch panel ICs. The monochrome STN display IC shipment remained at around 20 million units while CSTN display IC dropped below 3 million units and m-TFT display IC shipment was over 31 million units. Decrease in the total unit shipment of Mobile Display was mainly affected by the slow demand for mobile handsets during the year. Besides, touch panel ICs were at the initial shipment stage.

Advanced Display business unit combined OLED display product family with new display product family. OLED display IC shipment increased to over 30 million units, as the OLED display technology continued to expand into new applications that had helped creating demand in spite of an overall market downturn. The shipment of new display ICs fluctuated because market adaptation of the emerging applications remained slow in 2009 as the technology was comparatively new to the market.

Display System IC shipment increased by more than twofold to 2.5 million units as it gradually picked up in the system solution business, which included Multimedia Processor, 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 2009.

Shipment breakdown by business units is as follows:

| Units Shipped (million) | 2009        | 2008         | Change      |
|-------------------------|-------------|--------------|-------------|
| Mobile Display          | 55.5        | 81.1         | -32%        |
| Advanced Display        | 34.6        | 32.4         | 7%          |
| Display System Solution | 2.5         | 0.8          | 213%        |
| Green Power             | 0.1         | 0            | >100%       |
| Miscellaneous           | 0.0         | 0.4          | -99%        |
| <b>Total</b>            | <b>92.7</b> | <b>114.7</b> | <b>-19%</b> |

## Business Relationship

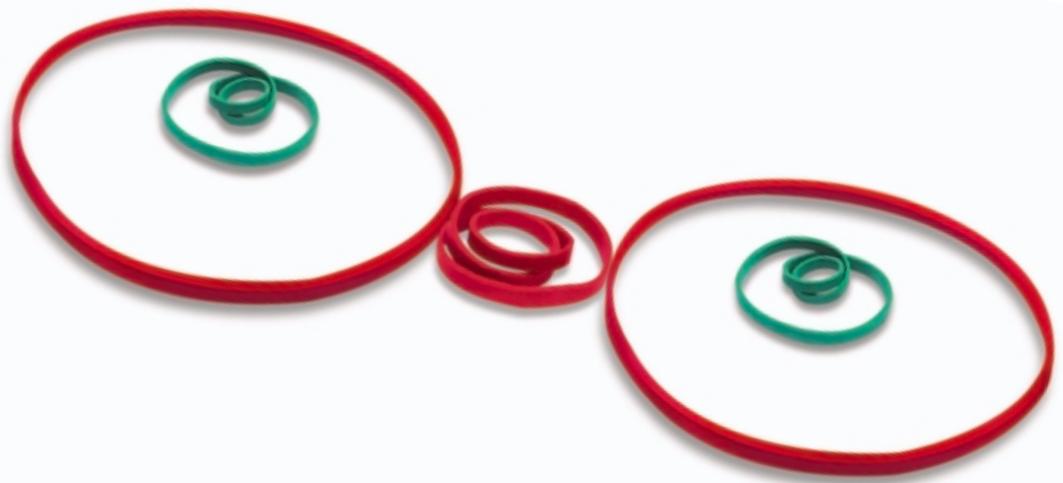
The business units of the Group are grouped into two categories: Display IC business and System Solution business.

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 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 and Green Power. Display System Solution supports specific multimedia applications such as mobile digital TVs ("MDTV"), pico-projectors, personal navigation devices ("PND") for global positioning system ("GPS") and eBooks. Working in alignment with independent design house ("IDHs"), the Group offers timely and total system solutions to original design manufacturers ("ODMs"). Green Power provides lighting system solutions to the emerging green power market including LED lighting (indoor and outdoor) and LED backlight unit. In collaboration with lighting system design houses, we were able to enlarge our total solutions offering and broaden our customer base for emerging market applications during the year.

## 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 high performance embedded memory, high current DC/DC step-down converter; (2) application IP including multi-touch panel technology,



dual MIPI/MDDI interface, low-voltage differential signaling (LVDS) interface, and AC-DC LED lighting controller with Silicon-Controlled Rectifier (SCR) dimming; and (3) system IP like dual SIM/dual operation GSM/GPRS mobile technology, total system solutions for pico-projectors, eBooks and Android-based mobile internet devices.

In 2009, the Group had eight patents filed with and five patents granted by trademark offices in various countries. We also published a technical paper to Power Electronics and Drive Systems (PEDS 2009) conference in Taiwan, covering the topic, "High-Output-Current and Low-Power-Loss Mobile Thin-film Transistor Liquid-Crystal Display Driver IC". Also, the Group released several articles to technology media for sharing our know-how in capacitive touch panel controller, OLED drivers, multimedia solutions and LED lighting development.

The Group spent roughly US\$14.3 million on research & development in 2009, representing about 55% of the total expenses in 2009 and 23% of sales for the year. As at 31 December 2009, the Group had a research and development workforce of over 225, representing approximately 53% of our entire staff. The personnel mix included IC designers, product engineers as well as system application and software engineers to match 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, Shenzhen, Singapore and Taiwan 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 2009, the Group had a workforce of 423 employees, 51% 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 8% decrease in headcount compared to last year, the result of realigning of the workforce and employing appropriate cost control measures.

As a technology company relying on intellectual excellence, the Group highly values 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.

With support from employees, belt tightening measures were implemented in 2009. During the year, employees of the Group including Executive Directors and senior management took no-pay-leave and certain fringe benefits were reduced. In support of the cost saving efforts, Non-executive Directors and Independent Non-executive Directors voluntarily reduced their director emoluments in 2H 2009.

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 2009.

During 2009, 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.

## BUSINESS PERFORMANCE AND OUTLOOK (continued)

### Prospects

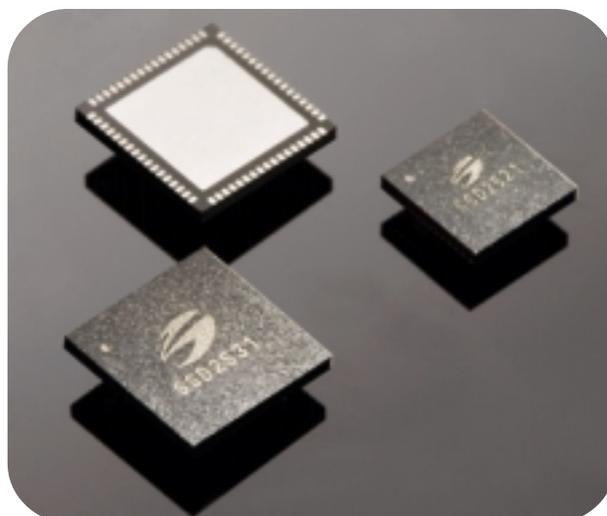
With the book to bill ratio close to 1.0 as at 31 December 2009, the first half of 2010 is expected to require continued diligent monitoring of the Group's operations as well as careful attention to market trends. The Group intends to continue our march forward by delivering innovative industrial-leading ICs, new system solutions for emerging high-growth applications, expanding our customer base and further developing our business in the emerging China market. We will keep on diversifying our product portfolio and provide fast turnkey solutions to customers. As at 31 December 2009, the Group registered a backlog of orders at around 19 million units for 1H 2010.

## DISPLAY IC BUSINESS

### Mobile Display

The Mobile Display business unit supports display driver ICs and touch panel ICs for small to medium size LCD display such as mobile phones, smart phones, PND, audio/video ("AV") applications, mobile internet devices ("MID"), netbooks and other portable equipment. The unit covers key technologies including monochrome STN, CSTN, m-TFT LCD display ICs and touch panel ICs, for monochrome and color displays as well as displays with touch panel functions.

Aligning with the market changes, the Mobile Display business unit continues to develop new generation display IC products with competitive features and support more display resolution formats. New products such as capacitive and resistive touch panel controllers, WVGA TFT driver controllers and high definition ("HD") TFT driver controllers are examples of new ICs with competitive edges to compete in the market.



The Group believes that the market for touch panel applications has great potential and therefore in 2010, touch panel technology will be the new driver for bringing in new business for the Mobile Display business unit. To tap this potential, we will continue our effort to advance the technology and introduce cutting-edge products related to touch panel applications.

### Advanced Display

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

OLED Display includes two major technologies: Passive Matrix OLED ("PMOLED") and Active Matrix OLED ("AMOLED"). With more than 170 million PMOLED IC units shipped in the past 10 years, the Group continues to be the leader in the PMOLED display IC market.

The market for OLED display ICs in general is expected to maintain steady growth in 2010, considering that the increasing maturity of the OLED display technology for mass production and the fact that OLED display continues to expand into new applications targeting different market segments from mobile phones and consumer electronics like MP3 and Bluetooth headsets, to industrial applications, office equipment as well as health care products.

The OLED Display product family includes a full range of PMOLED driver ICs from icon, mono and grey scale to full color, as well as new innovative display solutions that integrate new features such as touch sensor and charge pump into the ICs to achieve overall system cost reduction. The Group also continues to develop AMOLED display ICs with leading panel makers.



For the New Display, 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 continues to ship production quantities to electronic shelf label applications in 2009 and the design-in work continues in 2010 for other new e-paper display projects involving e-signage, portable storage devices, mobile phone indices, mobile decorative displays and e-cards, and more.

The Group continues to provide different varieties of IC solutions to cater for the requirements of different new display technologies such as electrophoretic, cholesteric and other bistable displays.

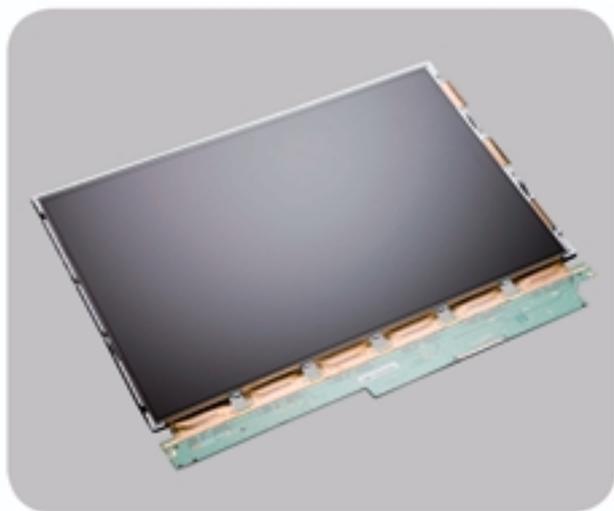
All-in-all, the Group believes the demand for new display ICs will surge and it will bring in new revenue streams through tapping into emerging market and new applications. Thus the Group will continue researching these and other technologies and expanding the business to ensure we stay ahead of the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



## BUSINESS PERFORMANCE AND OUTLOOK (continued)

### Large Display

The Large Display business unit addresses large display applications such as LCD TVs, LCD monitors and notebook computers. As large display manufacturing begins blooming in China, we will start new projects to support our business partners on large display related business as part of our commitment to support the local supply chain in China. Towards that objective, a dedicated team is set up and will move in a new Beijing office in 2010. The new team will continue the product development of LCD driver ICs and work closely with the Green Power business unit on LED backlight solutions to provide local support to major LCD customers in China.



## SYSTEM SOLUTION BUSINESS

### Display System Solution

The Group continues to invest in Display System Solution because we believe this business unit is a key part of the Group's success in transforming our business from IC component sales to delivering total system solutions. This business unit has shipped over 2.5 million IC units in 2009 and the Group believes it will bring in diverse sources of revenue stream and gradually become an important contributor to

the Group's financial performance. The Display System Solution business unit delivers total system solutions that can (1) increase display image quality and functionality; (2) support high-speed mobile interfaces; (3) generate high-performance multimedia solutions; and (4) integrate advanced wireless communication technology.

Products in production like image processors and graphic controllers are supporting the latest consumer applications such as MP4, PND, 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 2010.

With an early leadership in MIPI, the business unit won several design-ins for a variety of products in 2009 including some new model Android phones from top-tier players in the high-speed mobile interface market. The MIPI-related business is expected to continue to have more design-win projects for mass production in 2010.

After the first launch of the high-performance MagusCore™ multimedia system solution in the third quarter of 2008, this product family expanded in 2009 with a new, advanced version multimedia processor, and enhanced software and middleware to support

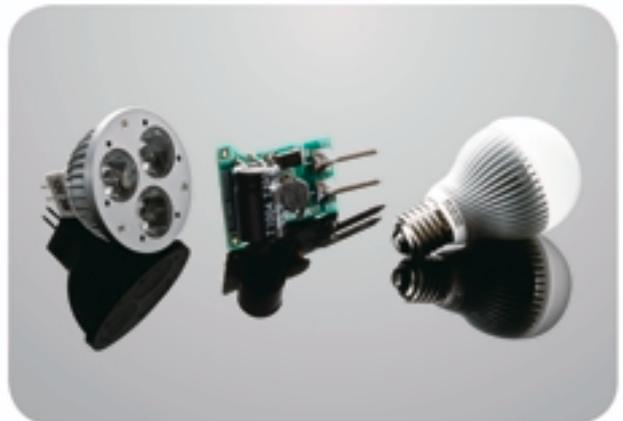
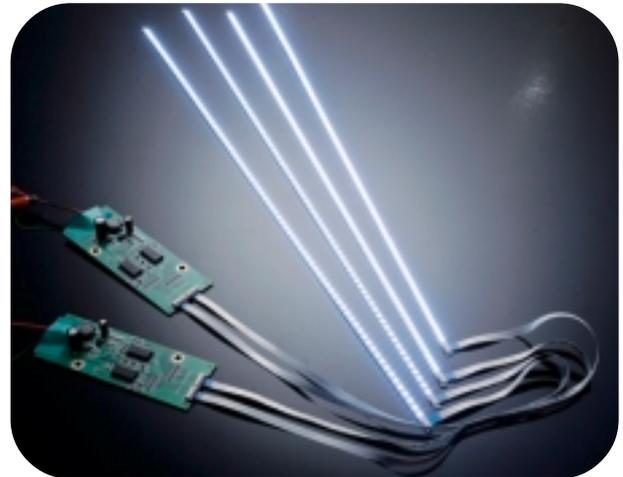


broader applications beyond MDTVs, such as pico-projectors, PNDs and eBooks. The Group believes the MagusCore™ system solution is poised to capture the market and will help to accelerate development of our business in China.

The Display System Solution business unit also has a strong competence in design, development and integration of advanced wireless communication technology and devices. The unit specializes in designing new mobile multimedia application solutions for end products including GSM/GPRS, EDGE and 3G for mobile phones, GPS for PND and mobile multimedia broadcasting technology for MDTV. It has successfully launched dual mode and dual standby mobile phones for a top-tier mobile brand's products. With its current MDTV platform solution, the unit continues to expand its total system solutions for other high-volume applications such as pico-projectors, eBooks and Android-based mobile internet devices.

## Green Power

The Green Power business unit focuses on providing energy-saving LED indoor and outdoor lighting solutions and LED backlighting where the Group sees the booming market of solid state lighting and signage industry, for the environmental friendly concern as well as for features enhancement in large display applications. Since this business unit was set up in 2008, it has recorded some small quantity of shipments in 2009. The Group will continue to expand its product portfolio in 2010, with more value-added LED driver ICs and LED power modules, while also developing new LED backlight solutions for supporting large display applications such as LCD TVs, LCD monitors and notebook computers.



## SOCIAL RESPONSIBILITY



*Supported the WWF's "Earth Hour 2009" event*

The Group is committed to being a "green" partner with our customers and society. Since Solomon Systech earned ISO14001 certification in 2007 for implementing a Quality and Environmental Management System ("QEMS"), we have passed all three quality audits without a single non-conformance ("NC"). The QEMS has enabled the Group to develop and implement management and operational policies that meet legal requirements for protecting the environment and minimizing pollution. We had also extended our green mission to entail compliant with the RoHS<sup>1</sup> Directive and participation in the green movement of the electronic industries.

The Group has been named as a "Caring Company" for five consecutive years since 2005 by the Hong Kong Council of Social Service in recognition for our active involvement in social and

community related activities. The Group and our staff raised a total of HK\$220,000 donation via different events in 2009 including donations to help victims of the Taiwan victims of Typhoon Morakot through the Red Cross and donations to the One Laptop Per Child program through OLPC Asia Pacific. The Group also donated computers and other equipment to the Caritas Computer Workshop. In February 2009, 50 employees and their family members participated in the "Walk for Millions 2009 - New Territories Walk" and in September 2009, 90 employees participated in the "Dress Special Day" of the Community Chest.

In addition to our involvement in community and charitable activities, the Group has actively endorsed green activities. We supported the WWF's "Earth Hour 2009" event with an innovative "Earth Hour 2009 Idea Raising Competition" held within the Group and which received many creative ideas from its global staff on different ways to save energy. We participated in several tree planting activities in Hong



Named as a "Caring Company" for five consecutive years



Solomon Systech Tree Planting Day

Kong and China to promote and take real action in environmental protection. We continued to implement "Green Office" measures to cut down on paper consumption, which included paperless documentation system and only Forest Stewardship Council<sup>2</sup> ("FSC") papers for printing in the office and printing the Group's financial reports and other corporate literatures.

The Group sponsored scholarship for university students in Hong Kong at a total amount of HK\$20,000 in 2009. As a responsible hi-tech company, Solomon Systech also advises the industry, local government and universities, playing a part in nurturing growth of the sector and contributing to the well-being of society.

1. An European Union's Directive of Restriction on Hazardous Substances (2002/95/EC), which became European Law in February 2003 and formally effective on 1 July 2006, restricts the use of six hazardous materials (lead, mercury, cadmium, chromium VI, PBB and PBDE) in the manufacture of various types of electronic and electrical equipment.
2. The Forest Stewardship Council (FSC) is an international organization that brings people together to find solutions which promote responsible stewardship of the world's forests. [www.fsc.org/en/](http://www.fsc.org/en/)



## EMPLOYEES



*Staff Bowling Competition*

The Group's most important assets are its employees. Thus, offering the right training to employees to help them realize their full potential and ability to cope with changes and challenges tops the operational agenda of the management. In 2009, the Group spent about HK\$229,000 on training and related sponsorship. A total of 9,214 hours of training, equivalent to an average of 24 hours a year per person, were provided to employees. The various topics covered included language skills, product and technical knowledge, marketing and leadership skills, and environmental protection. Training was conducted with external consultants and internal experienced employees as instructors. Apart from in-house training, the Group encourages employees to take external job-related courses and sponsors a portion of the course fee.

All new employees are required to take mandatory programs on topics including internal control and information protection, ISO and quality management system, as a part of job orientation. Specifically designed for new hires, these programs familiarize them with the Group's operations and emphasis on quality. All training and development programs primarily serve one or more of three main purposes: enhancing an employee's skills, strengthening an employee's understanding of the Group's culture and internal procedures, and providing professional development to employees.



*Overseas team won the competition*

More than 80% of the Group's employees hold graduate degrees or above, and more than one-third have master's degrees or higher academic qualifications. The Group's emphasis on research and development is also reflected in the make-up of our workforce, with 60% being engineers who specialize in product development. The entire team has, on average, 10.6 years of working experience.

Remuneration of employees includes basic salaries and bonuses. The Group believes in motivating, retaining and rewarding employees and attracting new talents with the right incentives, cash or share based, to make sure their interests are aligned with those of the Group. In addition to the two programs (Share Option Scheme and Share Award Plan) in place, the Group also implements a cash reward program, namely the NPI Incentive Program, to reward development teams for success in introducing new products to the market that excel in time to market and revenue contribution. There are also Patent Award and 1<sup>st</sup> Order Award, which aim to encourage and reward technological innovation, time-to-market and revenue generation for new products.



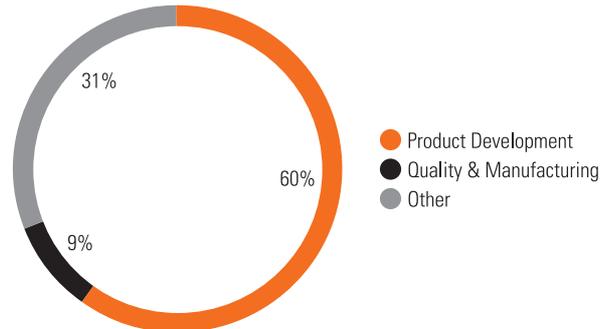
10<sup>th</sup> Anniversary Dinner

Apart from implementing measures and schemes to encourage dedication to work, the Group believes building a corporate culture that creates an intimate team is also very important. The Staff Recreation Club of the Group has thus been active in organizing activities for employees including games of sport such as basketball, badminton and bowling competition, and other recreation functions such as Anniversary dinner and Christmas gathering. The Group believes such activities can enhance relationship among employees and help to foster a sense of belonging to the “big family”.

The Group also cares about work safety and the health of our staff. Occupational safety and health measures are in place to facilitate assessment of workstation risks and related occupational safety standards, and staff members are provided health training.

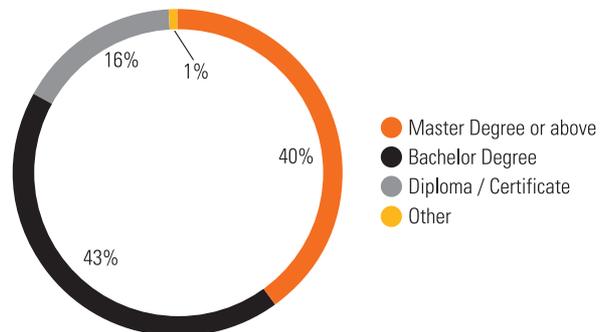
The Group values our pool of industry talents and rewards our members for excellent performance. Through offering employees job satisfaction, we hope to instill in them a sense of ownership of the company and our mission.

### Function



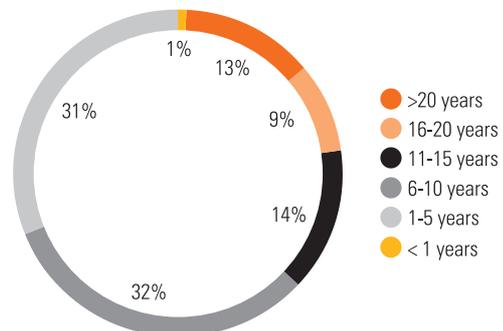
- 258 technical engineering staff
- Total 377 staff worldwide as at 31 December 2009

### Education



- 40% Master Degree or above
- 83% Degree or above

### Experience



- Management team >25 years of working experience
- Average 10.6 years of working experience

\* Data in all the charts exclude manufacturing subsidiary

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## Non-Executive Chairman



**Mr. SUN, Patrick**, age 51, is the Non-executive Chairman and an Independent Non-executive Director (“INED”) of the Company. He is currently an Independent Non-executive Director of China Railway Group Limited (HKSE: 0390) and Trinity Limited (HKSE: 0891) respectively. Mr. Sun is the

Vice-Chairman of the Chamber of Hong Kong Listed Companies. He was a member of Takeovers & Mergers Panel and the Takeovers Appeal Committee, Deputy Chairman of the Listing Committee and a member of the Council of The Stock Exchange of Hong Kong Limited. From 2000 to 2002, he was also the Senior Country Officer and Head of Investment Banking for Hong Kong of JPMorgan Chase. He was the Chief Executive Officer and Executive Director of Value Convergence Holdings Limited (HKSE: 0821), an Executive Director of SW Kingsway Capital Holdings Limited (HKSE: 0188), Group Executive Director and Head of Investment Banking for Greater China of Jardine Fleming Holdings Limited, Independent Non-executive Director of Link Management Limited (HKSE: 0823), and Independent Non-executive Director of Everbright Pramerica Fund Management Co., Ltd.

## Managing Director



**Mr. LEUNG Kwong Wai**, aged 53, is the Founder and Managing Director of the Group. He also serves as the Group CEO. Mr. Leung is also a director of EPD Technology Limited and Shenzhen agio Research and Development Co.,

Ltd respectively, the associated companies of the Group and a director of each of the wholly-owned subsidiaries of the Group namely Ample Pacific Limited, Broadwood Global Limited, Cornway International Limited, In Achieve Limited, Mentor Ventures Limited, Pac-Pacific Limited, Solomon Systech Inc., Solomon Systech Limited, Solomon Systech Japan Company Limited, Solomon Systech Pte. Ltd., Solomon Systech Taiwan Limited, Systech Technology China Limited, WE3 Ventures Limited and WE3 Technology Company Limited.

Prior to 1999, Mr. Leung was the Director of Operations of Motorola Semiconductors Hong Kong Limited. Currently, he is Director of the Society of Information Display, Hong Kong Chapter, Vice Chairman of the Hong Kong Electronic Industries Association, Vice President of the Hong Kong Semiconductor Industry Council, Vice Chairman of the Hong Kong Electronics Industry Council of the Federation of Hong Kong Industries, Director of the Board of Directors of Hong Kong Applied Science and Technology Research Institute Company Limited and Director of the Board of Directors of Nano and Advanced Materials Institute Limited. Mr. Leung received the Young Industrialist Award for Hongkong in 2001, the Outstanding Polytechnic University Alumni Award in 2003, the Outstanding Achievement Award in the 10 Years' China IC Design Industry Development in 2004, and was conferred Honorary Fellowship by the Hong Kong University of Science and Technology in 2007.

## Executive Directors



**Mr. CHEUNG Wai Kuen, Kenny**, aged 44, was appointed as a director on 9 March 2009.

Mr. Cheung joined the Group since 2008 and is currently the Vice President, Business Operations of Solomon Systech Limited. Mr. Cheung is also a director of WE3 Technology Company Limited and 維駿通訊產品（深圳）有限公司, the wholly-owned subsidiaries of the Group. Prior to joining the Group, he was the General Manager of Wireless Mobile System Group for Asia Pacific Region in Motorola Semiconductors Hong Kong Limited.



**Mr. HUANG Hsing Hua**, aged 51, joined the Group since 2003 and is currently the Vice President, Sales of Solomon Systech Limited. Mr. Huang is a director of namely Solomon Systech Limited and Solomon Systech Taiwan Limited, the wholly-owned subsidiaries of the Group. Prior to

joining the Group, he was the Senior Vice President of Solomon Technology Corp.



**Mr. LAI Woon Ching**, aged 57, joined the Group since its inception in 1999 and is currently the Vice President, China Operations & Quality and Manufacturing respectively of Solomon Systech Limited. Mr. Lai is a director of each of the wholly-

owned subsidiaries of the Group namely Cornway International Limited, Jing Guang Semiconductors (Dongugan) Limited, Solomon Systech (Shenzhen) Limited, Systech Technology China Limited and Solomon Systech (Beijing) Limited. Prior to joining the Group, he was Senior Quality Manager of Motorola Semiconductors Hong Kong Limited.



**Mr. LO Wai Ming**, aged 47, joined the Group since its inception in 1999 and is currently the Vice President, Business Operations of the Solomon Systech Limited and is a director of Kitronix Limited and Beijing LED Lighting

Engineering Co. Ltd. respectively, the associated companies of the Group. He has been a director of Advanced Photoelectronic Technology Limited, an associated company of the Group till 16 March 2010. Mr. Lo is also a director of each of the wholly-owned subsidiaries of the Group namely Broadwood Global Limited, Cornway International Limited, Solomon Systech Japan Company Limited, Solomon Systech Pte. Ltd., Solomon Systech (Shenzhen) Limited and Solomon Systech Taiwan Limited. Prior to joining the Group, he was the Business Operations Manager of Motorola Semiconductors Hong Kong Limited.

## Non-executive Directors



**Dr. LAM Pak Lee**, aged 60, was the Non-executive Chairman of the Company from 2004 to 2006. He has resigned his position as Non-executive Chairman with effect from 1 January 2007 but remains as a Non-executive Director of the Company. He is also the Founder, Chairman and CEO of Quanta Computer Inc. (TSE: 2382), and Director of Quanta Storage Inc. (TSE: 6188).



**Mr. SHEU Wei Fu**, aged 40, was appointed as Alternate Director to Dr. Lam Pak Lee, who is a Non-executive Director of the Company, with effect from 1 July 2007. He has been the Special Assistant to Dr. Lam since 1998. Mr. Sheu has not acted as a director in any other listed public company in the last 3 years.



**Mr. CHANG Ching Yi, Steven**, aged 48, is a Non-executive Director of the Company since 2003. Mr. Chang is also a director of Ample Pacific Limited, Solomon Systech Limited and Mentor Ventures Limited, the wholly-owned subsidiaries of the Group. Mr. Chang is the Founder and Chairman / CEO of The CID Group, Director of Taiflex Scientific Co., Ltd. (TSE: 8039) and Director of Kinsus Interconnect Technology Corp. (TSE: 3189).



**Mr. LAM Shun Fu, Percy**, aged 54, was appointed as a director of the Company on 23 October 2006. Mr. Lam was re-designated from an Executive Director to a Non-executive Director of the Company on 1 February 2009 and his service as Non-executive director was ended on 12 May 2009.

## Independent Non-executive Directors



**Mr. SUN, Patrick**  
(refer to Non-executive Chairman on P. 26)



**Mr. CHOY Kwok Hung, Patrick**, aged 67, has been an Independent Non-executive Director of the Company since 2004. Mr. Choy is a director of Beijing LED Lighting Engineering Co. Ltd., an associated company of the Group. Mr. Choy retired from Motorola as its Corporate Vice President. He is currently an Executive Director and Chairman of China Financial Leasing Group Limited (HKSE: 2312), the Founder and Chairman of Global Strategy Group, the Trustee and Board member of Majulah Connection Limited as well as the Chairman of Bunge China Advisory Board. Mr. Choy is a member of the Chinese People's Political Consultative Conference (CPPCC), National Committee since 2003. Mr. Choy was an Independent Non-executive Director of Road King Infrastructure Limited (HKSE: 1098) and Evergro Properties Limited which shares are listed on the Singapore Exchange (D09.SI).



**Mr. WONG Yuet Leung, Frankie**, aged 61, who had been a Non-executive Director of the Company since 2004, was re-designated as an Independent Non-executive Director with effect from 1 January 2007. He is currently the Vice-chairman of Shui On Construction and Materials Limited (HKSE: 0983), a Non-executive Director of CIG Yangtze Ports PLC (HKSE: 8233) and a Non-executive Director of Walcom Group Limited (WALG), a company listed on the AIM Board of London Stock Exchange plc. Mr. Wong was a Non-executive Director of Cosmedia Group Holdings Limited and China Central Properties Limited, companies that were delisted from the AIM Board of London Stock Exchange plc in December 2008 and June 2009 respectively.

## Honorable Adviser



**Professor KAO Kuen, Charles**, aged 76, who was an Independent Non-executive Director of the Company until 1 March 2008 and has been acting as honorable adviser of the Company. Known as "the father of fiber optics", Prof. Kao has been awarded the 2009 Nobel Prize in Physics.

## Company Secretary



**Mrs. FUNG Lui Kit Har, Keziah**, aged 49, Vice President, Finance. Mrs. Fung joined Solomon Systech Limited in 2000 as Finance Director and is currently acting as the Company Secretary of the Company. Mrs. Fung is a director of Pac-Pacific Limited, a wholly-owned subsidiary of the Group.

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT (continued)

### Senior Management

**Mr. KUNG Tat Wing**, aged 49, Vice President, Business Operations. Joined Solomon Systech Limited in 2005 as Business Operations Director.

**Mr. LEONG, John Peter**, aged 49, Vice President, Corporate Development. Mr. Leong joined Solomon Systech Limited in 2006 as Corporate Development Director and is a director of EPD Technology Limited and Shenzhen aigo Research and Development Co., Ltd., associated companies of the Group. Mr. Leong is also a director of In Achieve Limited, a wholly-owned subsidiary of the Group.

**Ms. CHAN Sze Yin, Yvonne**, aged 41, Corporate Communications Director. With Solomon Systech Limited since its inception in 1999 as Product Marketing Manager.

**Mr. CHEUNG Hung Fai, Peter**, aged 50, Planning & Customer Services Director. Joined Solomon Systech Limited in 2000 as Senior Planning Manager.

**Dr. LAI Wai Yan, Stephen**, aged 63, Design Engineering Director. With Solomon Systech Limited since its inception in 1999.

**Ms. LO Oi Yee, Mabel**, aged 45, Human Resources Director. Joined Solomon Systech Limited in 2000 as Human Resources Manager.

**Mr. NG Chung Yee**, aged 39, Design Engineering Director. With Solomon Systech Limited since its inception in 1999 as Product Manager.

**Mr. WANG Wah Chi, Raymond**, aged 44, Business Operations Director. Rejoined Solomon Systech Limited in 2006.

### Changes in Information of Directors

Pursuant to the disclosure requirement under Rule 13.51B(1) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, changes in information of Director of our Company are as follows:

- Mr. Sun, Patrick resigned as the Chief Executive Officer and Executive Director of Value Convergence Holdings Limited (HKSE: 0821) with effect from 2 October 2009.
- Mr. Sun, Patrick is an Independent Non-executive Director of Trinity Limited (HKSE: 0891), a company listed on The Stock Exchange of Hong Kong Limited on 3 November 2009. Mr. Sun was appointed to the Board of Trinity Limited on 1 October 2008.
- Mr. Choy Kwok Hung, Patrick resigned as an Independent Non-executive Director of Evergro Properties Limited which shares are listed on the Singapore Exchange (D09.SI) in May 2009.
- Mr. Wong Yuet Leung, Frankie retired as the Chief Executive Officer and was appointed as the Vice Chairman of Shui On Construction and Materials Limited (HKSE: 983) with effect from 1 April 2010.
- Mr. Lai Woon Ching took up China Operations function in the Group on top of his capacity in Quality and Manufacturing. He is a director of Solomon Systech (Beijing) Limited, a newly incorporated wholly-owned subsidiary of the Group in March 2010.
- Mr. Lo Wai Ming resigned as a director of Advanced Photoelectronic Technology Limited, an associated company of the Group with effect from 17 March 2010.

# CORPORATE GOVERNANCE REPORT

The Board of Directors (“Board”) and the management of the Group are committed to achieve and maintain high standards of corporate governance, which it considers as critical in safeguarding the integrity of its business operations and maintaining investors’ trust in the Company. The management also actively and constantly observes latest corporate governance developments in Hong Kong and overseas, particularly in the U.K. and U.S.A. Throughout the year, the Company has complied with all applicable code provisions as set out in the Code on Corporate Governance Practices (“Code Provisions”) in Appendix 14 of The Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and there was no deviation from the Code Provisions.

## Board of Directors

The Board currently consists of five executive directors (including the Managing Director), two non-executive directors and three independent non-executive directors (including the Chairman).

Schedule of matters reserved for the Board include:

- Strategy and management
- Group structure and capital
- Financial reporting and control
- Internal controls
- Major contracts
- Corporate communications
- Board membership and other appointments
- Remuneration
- Authority and delegation
- Corporate governance
- Company policies

Matters not specifically reserved for the Board and relate primarily to the daily operations of the Group are delegated to the management under the supervision of the respective directors and the leadership of the Managing Director.

At every annual general meeting of the Company, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation, provided that every director shall retire from office at least once every three years or within such other period as the rules of the Stock Exchange may from time to time prescribe. A retiring director shall be eligible for re-election and shall continue to act as a director throughout the meeting at which he retires. In accordance with Article 112 of the Company’s Articles of Association, Messrs. Chang Ching Yi, Steven, Choy Kwok Hung, Patrick, Leung Kwong Wai and Sun, Patrick, will retire by rotation at the forthcoming annual general meeting. Messrs. Choy Kwok Hung, Patrick, Leung Kowng Wai, and Sun, Patrick, being eligible, offer themselves for re-election while Mr. Chang Ching Yi, Steven, though eligible, has decided not to offer himself for re-election. The membership of the Board represents wide background and rich industry experience.

The Company has complied with Rules 3.10 (1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors among whom one has to have appropriate professional qualifications, or accounting or related financial management expertise. All Independent Non-executive Directors bring their wealth of experience to the Board and make active contribution to the Group. They closely monitor the Group’s development and freely express their opinions at the Board meetings. All Independent Non-executive Directors, except as disclosed in this annual report, do not have any business with or financial interests in the Group and confirmed their independence to the Group pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules. During the year, the Group’s management also met with certain non-executive directors to seek their views on certain business or operational matters.

## CORPORATE GOVERNANCE REPORT (continued)

### Board of Directors (continued)

The following table shows directors' attendance at meetings during the 2009 financial year:

|  | Board  | Audit Committee | Remuneration Committee | Nomination Committee | Investment Committee |
|--|--|-----------------|------------------------|----------------------|----------------------|
| Number of meetings held  | 8  | 2               | 1                      | 1                    | 3                    |
| <b>Members of the Board</b>  | <b>Number of meetings attended (Attendance rate)</b> |                 |                        |                      |                      |
| <b>Independent Non-executive Directors</b>   |  |                 |                        |                      |                      |
| Sun, Patrick (Chairman)  | 8 (100%)   | 2 (100%)        | 1 (100%)               | 1 (100%)             | —                    |
| Choy Kwok Hung, Patrick  | 8 (100%)   | 2 (100%)        | 1 (100%)               | —                    | 3 (100%)             |
| Wong Yuet Leung, Frankie   | 7 (88%)  | 1 (50%)         | —                      | —                    | —                    |
| <b>Executive Directors</b>   |  |                 |                        |                      |                      |
| Leung Kwong Wai (Managing Director)  | 8 (100%)   | —               | —                      | 1 (100%)             | 3 (100%)             |
| Cheung Wai Kuen, Kenny<br>(appointed w.e.f. 9 March 2009)  | 6 (100%)   | —               | —                      | —                    | —                    |
| Huang Hsing Hua  | 7 (88%)  | —               | —                      | —                    | —                    |
| Lai Woon Ching   | 8 (100%)   | —               | —                      | —                    | 3 (100%)             |
| Lam Shun Fu, Percy<br>(re-designated to a Non-executive<br>Director w.e.f. 1 February 2009 and<br>the service as Non-executive director<br>ended on 12 May 2009) | 3 (75%)  | —               | —                      | —                    | —                    |
| Lo Wai Ming  | 8 (100%)   | —               | —                      | —                    | 3 (100%)             |
| <b>Non-executive Directors</b>   |  |                 |                        |                      |                      |
| Chang Ching Yi, Steven   | 3 (38%)  | —               | 1 (100%)               | 0 (0%)               | —                    |
| Lam Pak Lee/Sheu Wai Fu<br>(alternate to Lam Pak Lee)  | 6 (75%)  | —               | —                      | —                    | —                    |

#### Independent Non-executive Chairman

In 2009, the Independent Non-executive Chairman of the Board, Mr. Sun, Patrick, was responsible for ensuring that all directors act in the best interest of shareholders. He was fully accountable to the shareholders and contributed to the Board and the Group on all top-level or strategic decisions. Specifically, he was assigned with four key roles to perform, namely leading the Board, advising the Group on key strategies, ensuring the Group's effective communication with stakeholders and implementing a high standard of corporate governance.

#### Managing Director

The Managing Director, Mr. Leung Kwong Wai, is responsible for managing the Group and executing the strategies adopted by the Board. He functions as the Chief Executive Officer who leads the Group's management team in accordance with the directions set by the Board. He is responsible for ensuring that a proper internal control system is in place and that the Group's business conforms to applicable laws and regulations. The Managing Director chairs the monthly operations and financial reviews and also bi-weekly staff meetings, as well as the quarterly employees' communication meeting. The role of the Chairman is segregated from that of the Chief Executive Officer as stipulated in the Listing Rules.

### **Non-executive Directors**

At least once a year, Non-executive Directors and also Independent Non-executive Directors will have a private discussion with the Independent Non-executive Chairman on the Group's matters without the presence of executive directors, including the Managing Director. In addition, Non-executive Directors, according to the Group's policy, may access the Group's employees at anytime they think appropriate. The service contracts of Mr. Chang Ching Yi, Dr. Lam Pak Lee, Mr. Wong Yuet Leung, Frankie, Mr. Choy Kwok Hung, Patrick and Mr. Sun, Patrick have been renewed for a specific term from 1 July 2008 up to 30 June 2010, subject to re-election according to the procedures set out in the Company's Articles of Association. Non-executive Directors and Independent Non-executive Directors are encouraged to take educational courses at the expenses of the Group on duties of the Board and corporate governance. The first appointment date of each non-executive director is listed below:

| <b>Non-executive Directors</b>            | <b>Appointment date</b>                      |
|---|--|
| Chang Ching Yi, Steven                    | 21 November 2003                             |
| Lam Pak Lee                               | 25 February 2004                             |
| Sheu Wei Fu<br>(alternate to Lam Pak Lee) | 1 July 2007                                  |
| Lam Shun Fu, Percy <sup>1</sup>           | 1 February 2009 (terms ended on 12 May 2009) |

### **Independent Non-executive Directors**

|                                       |                  |
|---------------------------------------|------------------|
| Wong Yuet Leung, Frankie <sup>2</sup> | 3 February 2004  |
| Choy Kwok Hung, Patrick               | 25 February 2004 |
| Sun, Patrick                          | 25 February 2004 |

1. Mr. Lam Shun Fu, Percy was re-designated from an Executive Director to a Non-executive Director effective from 1 February 2009 and the terms of Mr. Lam ended on 12 May 2009.
2. Mr. Wong Yuet Leung, Frankie was re-designated from a Non-executive Director to an Independent Non-executive Director effective from 1 January 2007.

### **Audit Committee**

The Audit Committee comprises three members who are all independent non-executive directors and is chaired by Mr. Wong Yuet Leung, Frankie. Mr. Wong has many years of experience of corporate finance and investment at company board level who meets the requirement of having related financial management expertise as required under Rule 3.10(2) of the Listing Rules for the purpose of such appointment. In addition, Mr. Sun, Patrick, member of the Audit Committee, is an experienced investment banker also with appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules.

The Committee meets not less than twice a year to review and discuss the internal audit findings, internal controls, interim and annual consolidated financial statements respectively. It may hold additional meetings from time to time to discuss special projects or other issues it considers necessary. The independent auditor and internal auditor of the Group may request a meeting if they consider it necessary.

The Audit Committee will conduct, on behalf of the Board, annual review of the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and training programs and budget.

The authorities of the Audit Committee include (1) investigating any activity within its terms of reference; (2) seeking any information it requires from any employee; and (3) obtaining outside legal or other independent professional advice if required.

The main duties of the Audit Committee are as follows:

- To consider the appointment of the independent auditor, the audit fee, and any question of resignation or dismissal
- To discuss with the independent auditor the nature and scope of the audit
- To review and monitor the independent auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards
- To develop and implement policy on the engagement of an independent auditor to supply non-audit services
- To review the Group's interim and annual consolidated financial statements before submission to the Board
- To discuss problems and reservations arising from the interim review and final audit and any matters that the independent auditor may wish to discuss
- To review the independent auditor's management letter and the management's response
- To review the Group's statement on internal control system prior to endorsement by the Board
- To review the internal audit plan, and ensure that the internal audit function is adequately resourced and has appropriate standing with the Group
- To consider the major findings of any internal investigation or internal audit reports and the management's response
- Upon the removal of the requirement for a qualified accountant under the Listing Rules, to conduct (on behalf of the Board) annual review of the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and training programs and budget
- To consider other topics, as defined by the Board

Throughout the year, the Audit Committee discharged its prescribed responsibilities, reviewed and discussed the financial results and internal control system of the Group.

## CORPORATE GOVERNANCE REPORT (continued)

### Remuneration Committee

The Remuneration Committee comprises one non-executive director (also the Chairman of the Committee) and two independent non-executive directors. A majority of the votes in the Remuneration Committee are exercisable by independent non-executive directors. The Committee does not deal with the remuneration of non-executive directors which shall be a matter for the executive directors of the Board. No director or senior executive will be involved in any discussion in connection with his or her own remuneration. The Committee also consults the Independent Non-executive Chairman about their proposals relating to the remuneration of other executive directors and has access to professional advice if considered necessary. The Committee consulted the head of human resources in respect of human resources policy and market as well as other company information.

The meetings of the Remuneration Committee shall normally be held not less than once a year to review and approve principally the remuneration of the Managing Director and executive directors of the Company. The Committee, currently chaired by Mr. Chang Ching Yi, Steven, has delegated to the Managing Director the authority to approve the remuneration of all the employees of the Group below the rank of executive director. For policy related remuneration schemes, they will be decided by the Board.

The main duties of the Remuneration Committee are as follows:

- To determine the framework and broad policy for the remuneration of the Chairman (if of executive), Managing Director and executive directors
- To approve remuneration package for any new hire or the respective bonus in excess of an amount as specified by the Committee from time to time
- To delegate relevant responsibility and to receive adequately detailed reports of all exercises of such delegated responsibility
- To review the appropriateness and relevance of the remuneration policy
- To approve the performance related pay schemes operated by the Group
- To review all share incentive plans for approval by the Board
- To ensure the contractual terms on termination with senior executives and any payments thereof are fair to the individual and the Group
- To give due regard to legal requirements, tax provisions and recommendations of the Listing Rules and guidelines in respect of remuneration package for senior executives

- To review annually and take note of the remuneration trends of the Group and obtain reliable and up-to-date information about remuneration packages of other closely comparable companies
- To report its proceedings to the Board after each meeting

In 2009, the Remuneration Committee determined the remuneration policy for the executive directors, assessed their performances as well as approved their employment contracts with the Group. Details of remuneration of directors can be obtained in note 10 of the consolidated financial statements section.

### Nomination Committee

In 2009, the Nomination Committee comprised the Chairman (also the Chairman of the Committee), the Managing Director and one non-executive director. The Committee generally meets before the annual general meeting, or at other times as required by the Chairman of the Committee.

The Nomination Committee, chaired by Mr. Sun, Patrick, will identify qualified candidates to fill the Board membership whenever such vacancy arises. It will nominate such candidates for the Board to consider, and regularly review the composition of the Board as well as make suggestions on any change that may be required.

The main duties of the Nomination Committee are as follows:

- To review the structure, size and composition of the Board regularly and to make recommendations to the Board with regard to any changes required
- To evaluate the balance of skills, knowledge and experience of the Board
- To identify and nominate any candidate for the Board's approval
- To review the leadership needs and succession plans of the Group in relation to both directors and senior executives
- To make recommendations for the appointment and removal of the Chairman, Managing Director or any director
- To make recommendations to the Board on the re-appointment of any non-executive director at the conclusion of his specified term of office
- To report its proceedings to the Board after each meeting

## Investment Committee

The Investment Committee comprises three executive directors and one independent non-executive director. It shall meet at the request of any member of the Committee and its meetings will be facilitated by the Vice President, Corporate Development, and the Vice President, Finance will participate in the discussion.

The Investment Committee, currently chaired by Mr. Leung Kwong Wai, will evaluate and approve any equity investment of US\$2 million or less with the support from the head of Corporate Development. Any equity investment exceeding that amount will be proposed by the Committee for the Board's approval. The Committee is authorized, at the expense of the Group, to seek external professional advice it considers necessary and to arrange external advisers to attend its meetings. The Committee will also periodically report the status and performance of investments to the Board.

The main duties of the Investment Committee are as follows:

- To assist the Board in discharging its duties and responsibilities in relation to investment activities (excluding treasury or cash management)
- To assist the Board with all of its policy setting responsibilities related to investment
- To establish and document the basic investment principles and beliefs held by the Committee as well as the Code of Ethics for avoiding possible conflict of interest
- To have all necessary access and authority to seek information from management to fulfill its objectives, duties and responsibilities
- To review the appointment of external professional advisers
- To review and monitor investment performance
- To review and advise on additions to and dispositions of existing investments
- To review annually the terms of reference of the Committee and to recommend to the Board any required changes
- To submit an annual work report to the Board summarizing the Committee's activities, findings, recommendations and results for the past year

## Accountability and Audit

### *Financial Reporting*

The Directors of the Company acknowledge their responsibility to present a balanced, clear and understandable assessment in the consolidated financial statements of the annual and interim reports. The Directors have prepared the consolidated financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. When the Directors are aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties will be clearly and prominently set out and discussed at length in this Corporate Governance Report.

### *Internal Controls*

The internal controls within the Group are designed to help the Group achieve key initiatives, and represent the Group's efforts in protecting its physical assets, information and technology. The presence of internal controls empowers the Group to implement best business practices in dynamic and challenging business environments. In brief, the Group's internal controls cover a number of in-house procedures and policies. Examples are compliance with the Group's Code of Conduct, adherence to procedure manuals, confidentiality and information disclosure, documentation, authentication of transactions and so on. The Group has set up an Anti-Fraud policy since 2006. Under such policy, employees can report any concerns, including misconduct, impropriety or fraud to senior management or the Anti-Fraud Management Team. In 2009, no incident of fraud or misconduct was reported from employees or stakeholders that has material effect on the Group's financial statements and overall operations.

During 2009, the Audit Committee with the help of the Corporate Audit Manager conducted reviews of the Group's system of internal control and Audit Committee was satisfied that the Group had complied with the provisions of the Code.

The Board reviewed the Group's internal control system for the year ended 31 December 2009, including financial, operational and compliance control, and risk management functions. The Board assessed the effectiveness of internal control by considering reviews performed by the Audit Committee, executive management and the internal auditor; and the independent auditor's management letters, if any. The Board also reviewed the Group's operating and financial performance against the financial budget on a quarterly basis while executive management closely monitored the financial performance on a monthly basis.

## CORPORATE GOVERNANCE REPORT (continued)

### Accountability and Audit (continued)

#### Internal Controls (continued)

The Internal Audit Team follows a risk-based approach. Different audit areas are assigned risk ratings and an audit plan is formulated accordingly so that priority and appropriate audit frequency is given to areas with higher risks. The annual work plan is reviewed and endorsed by the Audit Committee. The team independently conducts regular financial and operational reviews on the Group and reports directly to the chairman of the Audit Committee regularly. Summary of major findings and control weaknesses, if any, are reviewed by the Audit Committee at least twice every year. The Internal Audit Team monitors the follow-up actions agreed upon in response to its recommendations.

#### Independent Auditor

The Group's independent auditor is PricewaterhouseCoopers ("PwC HK"). PwC HK is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements. Apart from the statutory audit of the annual consolidated financial statements, PwC HK was also engaged to perform a review on the interim consolidated financial statements of the Group for the six months ended 30 June 2009 as well as advise the Group on tax compliance and related matters.

The fees payable by the Group to the independent auditor in respect of audit and non-audit services provided by them for the year ended 31 December 2009 are US\$147,000 and US\$22,000 respectively.

### Others

#### Model Code and Code of Conduct

The Group made specific enquiry with all directors of the Company regarding their compliance with the required standard set out in the Model Code (Appendix 10 of the Listing Rules) in relation to their securities transactions. Confirmation has been sought from all directors that they have complied with all required Standards. Regarding the shares held by directors, the details are listed on pages 41 and 42 in the Report of the Directors of this Annual Report. Pursuant to Appendix 14 paragraph A.5.4, the Group established its own written guidelines on no less exacting terms than the Model Code for relevant employees who are likely to be in possession of unpublished price sensitive information in respect of their dealings in the securities of the Company. All relevant employees conformed to the Group's own guidelines throughout the year 2009.

Since it was founded in July 1999, the Group has always held a strong belief that its future success relies on its trustworthiness, goodwill and integrity in dealing with customers, suppliers, employees, shareholders, the industry and governments. The Group has therefore established a set of Code of Conduct for all of its employees to follow. Adherence to the Code of Conduct is the responsibility of each employee of the Group and is a condition of continued employment. The Code of Conduct deals with key subject areas such as proper use of the Group's funds and assets, customer/supplier/government relationships, conflicts of interest and operating procedures.

#### Corporate Transparency and Investor Relations

The Company reports to shareholders semi-annually on the Group's business and financial conditions. It is the Company's intention to hold analyst conferences immediately after the announcements of the Group's interim and annual results, and media meetings on the following day. In 2009, the Company made the Group's fifth annual results announcement and the sixth interim results announcement since listing. The management interacted directly with investors, analysts and the media, and provided them with insightful information and answers to their queries. On 13 May 2009, the Company held its Annual General Meeting at Room 3203, 32/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong at 4:30pm. During the said annual general meeting, the following items were discussed:

- Report of the Directors and Independent Auditor's Report for the year ended 31 December 2008
- Final dividend for the year ended 31 December 2008
- Re-election of directors
- Authorization to fix the directors' remuneration
- Appointment of Independent Auditor and authorization to Board of Directors to fix their remuneration
- Authorization to repurchase the Company's shares
- Authorization to grant a general mandate to allot, issue or deal with the Company's new shares
- Extension of the general mandate to allot, issue or deal with the Company's new shares including
  - an ordinary resolution to grant a general mandate to the Directors to repurchase shares up to a maximum of 10% of the existing issued share capital.
  - an ordinary resolution to grant a general mandate to the Directors to allot, issue or deal with new shares up to a maximum of 20% of the existing issued share capital.
  - an ordinary resolution to extend the general mandate granted to the Directors to issue new shares by the number of shares repurchased.

## Others (continued)

### **Corporate Transparency and Investor Relations** (continued)

- Amendment to the Articles of Association of the Company to ensure compliance with the several amended provision of the Listing Rules, relating to the use of websites for communication with Shareholders and the notice of general meetings.

Except the ordinary resolutions (a) to grant a general mandate to the Directors to allot, issue or deal with new shares up to a maximum of 20% of the existing issued share capital; and (b) to extend the general mandate granted to the Directors to issue new shares by the number of shares repurchased, all resolutions related to the above items were passed with strong majority votes.

For the year under review, the Company conducted 14 meetings and conference calls with investors and analysts. As part of its efforts to promote its image and reputation, the Group leveraged the networks and experience of a public relations firm.

The views of investors are invaluable to the Company. To help it improve communication with investors, the Company has been collecting ideas from shareholders and feedback from the investment community since listing. The Company also appreciates the opportunity to meet shareholders face-to-face.

The Company's Articles of Association was amended to accommodate the use of websites for communication with shareholders in 2009. To the best knowledge of the Company, as at 31 December 2009, China Electronic Corporation ("CEC") held more than 27% of the Company's shares, the Board as a whole held roughly 9%, and the remaining approximately 64%, is believed to be in public hands.

The website of the Group ([www.solomon-systech.com](http://www.solomon-systech.com)) is also updated constantly to inform investors and the general public of the latest information of the Group, for example, the important dates for shareholders in the coming year and a soft copy of this Corporate Governance Report. Further information for shareholders can be found at the back of this report.

## Shareholders' Rights

The Company's shareholders' rights are at all times highly regarded by the Group. The Group will make sure the Company's shareholders know how to exercise their rights. The Group provides effective channels for the Company's shareholders to communicate their ideas to the Group and exert their rights.

With regard to general enquiry, a shareholder may contact the Company's Share Registrar directly. Information on proceedings at general meetings, votes of members, proxies, dividends and reserves, transfer of shares and other information are detailed in the Company's Memorandum and Articles of Association, which is accessible for inspection at the Company's Share Registrar. The contact details of the Share Registrar appear at the end of this report. In the event that a shareholder wishes to put forward a proposal to the Board, he may put forth his enquiry in writing to the Corporate Communications Director who will act on the subject matter accordingly.

# REPORT OF THE DIRECTORS

The directors (the "Directors") submit their report together with the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2009.

## Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 19 to the consolidated financial statements.

An analysis of the Group's performance for the year by business segment is set out in note 5 to the consolidated financial statements.

## Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 46.

The Board of the Company recommended the payment of a final dividend of HK\$0.01 per ordinary share totaling HK\$24,473,000 (approximately US\$3,158,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on 9 June 2010, is expected to be paid on 18 June 2010 to the shareholders of the Company whose names appear on the register of members of the Company on 9 June 2010, and for the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from 3 June 2010 to 9 June 2010, both days inclusive.

## Reserves

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

## Donations

Charitable and other donations made by the Group during the year amounted to US\$15,000.

## Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

## Share capital

Details of the movements in share capital of the Company are set out in note 25 to the consolidated financial statements.

## Distributable reserves

Distributable reserves of the Company as at 31 December 2009, comprising share premium reserve of US\$108,469,000 that is subject to the regulation of Section 34 of the Cayman Islands Companies Law and the Articles of Association of the Company, the equity compensation reserve of US\$15,804,000 and retained earnings of US\$6,783,000 totaling US\$131,056,000 are available for distribution to the Company's shareholders.

## Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December is set out on page 99.

## Purchase, sale or redemption of Company's listed shares

There were no purchases, sales or redemptions of the Company's listed shares by the Company or any of its subsidiaries during the year.

It was noted that 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 Plan of the Company on 9 February 2010.

## Share options

Share options have been granted to directors, senior management and employees of the Group under the Share Option Scheme approved by the shareholders of the Company at an Extraordinary General Meeting on 25 February 2004. The terms of the Share Option Scheme are in accordance with the provisions of the Chapter 17 of the Listing Rules on the Stock Exchange. The Share Option Scheme is valid and effective for a period of 10 years commencing on 19 March 2004, being the date of adoption of such scheme by the Board of Directors of the Company.

### Share options (continued)

The options were granted at a nominal consideration of HK\$1.00. Each option gives the holder the right to subscribe for one share of the Company at a pre-determined price per share. The exercise price of the options granted under the Share Option Scheme shall be equal to or higher than the average closing price of the shares for the five business days immediately proceeding the date of grant or the market closing price of the shares on the date of the grant.

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under the share option schemes does not in aggregate exceed 10% of the shares in issue as at the date of approval of the Share Option Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance

with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes does not exceed 30% of the shares in issue from time to time.

During the year, 5,500,000 share options granted on 28 June 2006 with an exercise price of HK\$1.98 per share were lapsed on 30 June 2009 and 150,000 share options granted on 7 February 2007 with an exercise price of HK\$1.43 per share were forfeited and cancelled.

On 13 July 2009, options to subscribe for 11,000,000 new shares of the Company were granted by the Company to directors and senior management of the Company at a nominal consideration of HK\$1.0 payable by each grantee under the Share Option Scheme. These options are exercisable during the period from 1 July 2010 to 30 June 2012, at the exercise price of HK\$0.632 per share.

Details of the share options outstanding as at 31 December 2009 which have been granted under the Share Option Scheme are as follows:

| Name of Participants                       | Number of options      |                        |   |                         |                           |                          | Exercise period     |              |             |              |
|--|------------------------|------------------------|---|-------------------------|---------------------------|--------------------------|---------------------|--------------|-------------|--------------|
|  | Held on 1 January 2009 | Lapsed during the year | Forfeited and Cancelled during the year | Granted during the year | Exercised during the year | Held on 31 December 2009 | Exercise price HK\$ | Grant date   | Begins      | Ends         |
| <b>Independent Non-executive Directors</b> |                        |                        |   |                         |                           |                          |                     |              |             |              |
| Sun, Patrick                               | 500,000                | (500,000)              | —                                       | —                       | —                         | —                        | 1.980               | 28 June 2006 | 1 July 2007 | 30 June 2009 |
|  | 500,000                | —                      | —                                       | —                       | —                         | 500,000                  | 1.118               | 28 June 2007 | 1 July 2008 | 30 June 2010 |
|  | 1,000,000              | —                      | —                                       | —                       | (1,000,000)               | —                        | 0.275               | 24 July 2008 | 1 July 2009 | 30 June 2011 |
|  | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                | 0.632               | 13 July 2009 | 1 July 2010 | 30 June 2012 |
|  | 2,000,000              | (500,000)              | —                                       | 1,000,000               | (1,000,000)               | 1,500,000                |                     |              |             |              |
| Choy Kwok Hung, Patrick                    | 500,000                | (500,000)              | —                                       | —                       | —                         | —                        | 1.980               | 28 June 2006 | 1 July 2007 | 30 June 2009 |
|  | 500,000                | —                      | —                                       | —                       | —                         | 500,000                  | 1.118               | 28 June 2007 | 1 July 2008 | 30 June 2010 |
|  | 1,000,000              | —                      | —                                       | —                       | —                         | 1,000,000                | 0.275               | 24 July 2008 | 1 July 2009 | 30 June 2011 |
|  | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                | 0.632               | 13 July 2009 | 1 July 2010 | 30 June 2012 |
|  | 2,000,000              | (500,000)              | —                                       | 1,000,000               | —                         | 2,500,000                |                     |              |             |              |
| Wong Yuet Leung, Frankie                   | 500,000                | (500,000)              | —                                       | —                       | —                         | —                        | 1.980               | 28 June 2006 | 1 July 2007 | 30 June 2009 |
|  | 500,000                | —                      | —                                       | —                       | —                         | 500,000                  | 1.118               | 28 June 2007 | 1 July 2008 | 30 June 2010 |
|  | 1,000,000              | —                      | —                                       | —                       | —                         | 1,000,000                | 0.275               | 24 July 2008 | 1 July 2009 | 30 June 2011 |
|  | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                | 0.632               | 13 July 2009 | 1 July 2010 | 30 June 2012 |
|  | 2,000,000              | (500,000)              | —                                       | 1,000,000               | —                         | 2,500,000                |                     |              |             |              |
| <b>Subtotal</b>                            | <b>6,000,000</b>       | <b>(1,500,000)</b>     | <b>—</b>                                | <b>3,000,000</b>        | <b>(1,000,000)</b>        | <b>6,500,000</b>         |                     |              |             |              |

## REPORT OF THE DIRECTORS (continued)

### Share options (continued)

Details of the share options outstanding as at 31 December 2009 which have been granted under the Share Option Scheme are as follows: (continued)

| Name of Participants                         | Number of options      |                        |   |                         |                           |                          | Exercise price HK\$ |                 | Exercise period |               |
|--|------------------------|------------------------|---|-------------------------|---------------------------|--------------------------|---------------------|-----------------|-----------------|---------------|
|  | Held on 1 January 2009 | Lapsed during the year | Forfeited and Cancelled during the year | Granted during the year | Exercised during the year | Held on 31 December 2009 | Grant date          | Begins          | Ends            |               |
| <b>Executive and Non-executive Directors</b> |                        |                        |   |                         |                           |                          |                     |                 |                 |               |
| Chang Ching Yi, Steven                       | 500,000                | (500,000)              | —                                       | —                       | —                         | —                        | 1.980               | 28 June 2006    | 1 July 2007     | 30 June 2009  |
|  | 500,000                | —                      | —                                       | —                       | —                         | 500,000                  | 1.118               | 28 June 2007    | 1 July 2008     | 30 June 2010  |
|  | 1,000,000              | —                      | —                                       | —                       | —                         | 1,000,000                | 0.275               | 24 July 2008    | 1 July 2009     | 30 June 2011  |
|  | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                | 0.632               | 13 July 2009    | 1 July 2010     | 30 June 2012  |
|  | 2,000,000              | (500,000)              | —                                       | 1,000,000               | —                         | 2,500,000                |                     |                 |                 |               |
| Lam Pak Lee                                  | 500,000                | (500,000)              | —                                       | —                       | —                         | —                        | 1.980               | 28 June 2006    | 1 July 2007     | 30 June 2009  |
|  | 500,000                | —                      | —                                       | —                       | —                         | 500,000                  | 1.118               | 28 June 2007    | 1 July 2008     | 30 June 2010  |
|  | 1,000,000              | —                      | —                                       | —                       | —                         | 1,000,000                | 0.275               | 24 July 2008    | 1 July 2009     | 30 June 2011  |
|  | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                | 0.632               | 13 July 2009    | 1 July 2010     | 30 June 2012  |
|  | 2,000,000              | (500,000)              | —                                       | 1,000,000               | —                         | 2,500,000                |                     |                 |                 |               |
| Leung Kwong Wai                              | 500,000                | (500,000)              | —                                       | —                       | —                         | —                        | 1.980               | 28 June 2006    | 1 July 2007     | 30 June 2009  |
|  | 408,000                | —                      | —                                       | —                       | —                         | 408,000                  | 1.430               | 7 February 2007 | 1 April 2009    | 31 March 2011 |
|  | 612,000                | —                      | —                                       | —                       | —                         | 612,000                  | 1.430               | 7 February 2007 | 1 April 2010    | 31 March 2012 |
|  | 500,000                | —                      | —                                       | —                       | —                         | 500,000                  | 1.118               | 28 June 2007    | 1 July 2008     | 30 June 2010  |
|  | 1,000,000              | —                      | —                                       | —                       | —                         | 1,000,000                | 0.275               | 24 July 2008    | 1 July 2009     | 30 June 2011  |
|  | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                | 0.632               | 13 July 2009    | 1 July 2010     | 30 June 2012  |
|  | 3,020,000              | (500,000)              | —                                       | 1,000,000               | —                         | 3,520,000                |                     |                 |                 |               |
| Cheung Wai Kuen, Kenny                       | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                | 0.632               | 13 July 2009    | 1 July 2010     | 30 June 2012  |
|  | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                |                     |                 |                 |               |
| Huang Hsing Hua                              | 500,000                | (500,000)              | —                                       | —                       | —                         | —                        | 1.980               | 28 June 2006    | 1 July 2007     | 30 June 2009  |
|  | 500,000                | —                      | —                                       | —                       | —                         | 500,000                  | 1.118               | 28 June 2007    | 1 July 2008     | 30 June 2010  |
|  | 1,000,000              | —                      | —                                       | —                       | —                         | 1,000,000                | 0.275               | 24 July 2008    | 1 July 2009     | 30 June 2011  |
|  | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                | 0.632               | 13 July 2009    | 1 July 2010     | 30 June 2012  |
|  | 2,000,000              | (500,000)              | —                                       | 1,000,000               | —                         | 2,500,000                |                     |                 |                 |               |
| Lai Woon Ching                               | 500,000                | (500,000)              | —                                       | —                       | —                         | —                        | 1.980               | 28 June 2006    | 1 July 2007     | 30 June 2009  |
|  | 20,000                 | —                      | —                                       | —                       | —                         | 20,000                   | 1.430               | 7 February 2007 | 1 April 2009    | 31 March 2011 |
|  | 30,000                 | —                      | —                                       | —                       | —                         | 30,000                   | 1.430               | 7 February 2007 | 1 April 2010    | 31 March 2012 |
|  | 500,000                | —                      | —                                       | —                       | —                         | 500,000                  | 1.118               | 28 June 2007    | 1 July 2008     | 30 June 2010  |
|  | 1,000,000              | —                      | —                                       | —                       | —                         | 1,000,000                | 0.275               | 24 July 2008    | 1 July 2009     | 30 June 2011  |
|  | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                | 0.632               | 13 July 2009    | 1 July 2010     | 30 June 2012  |
|  | 2,050,000              | (500,000)              | —                                       | 1,000,000               | —                         | 2,550,000                |                     |                 |                 |               |
| Lo Wai Ming                                  | 500,000                | (500,000)              | —                                       | —                       | —                         | —                        | 1.980               | 28 June 2006    | 1 July 2007     | 30 June 2009  |
|  | 500,000                | —                      | —                                       | —                       | —                         | 500,000                  | 1.118               | 28 June 2007    | 1 July 2008     | 30 June 2010  |
|  | 1,000,000              | —                      | —                                       | —                       | —                         | 1,000,000                | 0.275               | 24 July 2008    | 1 July 2009     | 30 June 2011  |
|  | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                | 0.632               | 13 July 2009    | 1 July 2010     | 30 June 2012  |
|  | 2,000,000              | (500,000)              | —                                       | 1,000,000               | —                         | 2,500,000                |                     |                 |                 |               |
| Subtotal                                     | 13,070,000             | (3,000,000)            | —                                       | 7,000,000               | —                         | 17,070,000               |                     |                 |                 |               |

## Share options (continued)

Details of the share options outstanding as at 31 December 2009 which have been granted under the Share Option Scheme are as follows: (continued)

| Name of Participants                           | Number of options      |                        |   |                         |                           |                          | Exercise period     |                 |              |               |
|--|------------------------|------------------------|---|-------------------------|---------------------------|--------------------------|---------------------|-----------------|--------------|---------------|
|  | Held on 1 January 2009 | Lapsed during the year | Forfeited and Cancelled during the year | Granted during the year | Exercised during the year | Held on 31 December 2009 | Exercise price HK\$ | Grant date      | Begins       | Ends          |
| <b>Senior management, employees and others</b> |                        |                        |   |                         |                           |                          |                     |                 |              |               |
| Others   | 1,000,000              | (1,000,000)            | —                                       | —                       | —                         | —                        | 1.980               | 28 June 2006    | 1 July 2007  | 30 June 2009  |
|  | 1,160,000              | —                      | (60,000)                                | —                       | —                         | 1,100,000                | 1.430               | 7 February 2007 | 1 April 2009 | 31 March 2011 |
|  | 1,740,000              | —                      | (90,000)                                | —                       | —                         | 1,650,000                | 1.430               | 7 February 2007 | 1 April 2010 | 31 March 2012 |
|  | 1,800,000              | —                      | —                                       | —                       | —                         | 1,800,000                | 1.118               | 28 June 2007    | 1 July 2008  | 30 June 2010  |
|  | 2,000,000              | —                      | —                                       | —                       | (1,000,000)               | 1,000,000                | 0.275               | 24 July 2008    | 1 July 2009  | 30 June 2011  |
|  | —                      | —                      | —                                       | 1,000,000               | —                         | 1,000,000                | 0.632               | 13 July 2009    | 1 July 2010  | 30 June 2012  |
| Subtotal                                       | 7,700,000              | (1,000,000)            | (150,000)                               | 1,000,000               | (1,000,000)               | 6,550,000                |                     |                 |              |               |
| Total  | 26,770,000             | (5,500,000)            | (150,000)                               | 11,000,000              | (2,000,000)               | 30,120,000               |                     |                 |              |               |

### Valuation of options

The Company has been using the Black-Scholes Valuation Model to value the share options granted. Details of the key parameters used

in the Model and the corresponding fair values of the options granted during the year should be referred to note 26(a) of the Notes to the Consolidated Financial Statements.

The details of the options granted to the respective parties during 2009 and 2008 are as follows:

|  | 2009                       |                | 2008                       |                |
|--|----------------------------|----------------|----------------------------|----------------|
|  | Number (in thousand units) | Value US\$'000 | Number (in thousand units) | Value US\$'000 |
| Sun, Patrick                           | 1,000                      | 28.0           | 1,000                      | 6.4            |
| Choy Kwok Hung, Patrick                | 1,000                      | 28.0           | 1,000                      | 6.4            |
| Wong Yuet Leung, Frankie               | 1,000                      | 28.0           | 1,000                      | 6.4            |
| Chang Ching Yi, Steven                 | 1,000                      | 28.0           | 1,000                      | 6.4            |
| Lam Pak Lee                            | 1,000                      | 28.0           | 1,000                      | 6.4            |
| Sheu Wei Fu (alternate to Lam Pak Lee) | —                          | —              | —                          | —              |
| Leung Kwong Wai                        | 1,000                      | 28.0           | 1,000                      | 6.4            |
| Cheung Wai Kuen, Kenny                 | 1,000                      | 28.0           | —                          | —              |
| Huang Hsing Hua                        | 1,000                      | 28.0           | 1,000                      | 6.4            |
| Lai Woon Ching                         | 1,000                      | 28.0           | 1,000                      | 6.4            |
| Lo Wai Ming                            | 1,000                      | 28.0           | 1,000                      | 6.4            |
| Lam Shun Fu, Percy                     | —                          | —              | 1,000                      | 6.4            |
| Subtotal for Directors                 | 10,000                     | 280.0          | 10,000                     | 64.0           |
| Senior management                      | 1,000                      | 27.0           | 1,000                      | 6.7            |
| Total                                  | 11,000                     | 307.0          | 11,000                     | 70.7           |

## REPORT OF THE DIRECTORS (continued)

### Directors

The directors during the year and up to the date of this report were:

#### **Independent Non-executive Directors:**

Mr. Sun, Patrick (Chairman)  
Mr. Choy Kwok Hung, Patrick  
Mr. Wong Yuet Leung, Frankie

#### **Non-executive Directors:**

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

#### **Executive Directors:**

Mr. Leung Kwong Wai (Managing Director)  
Mr. Cheung Wai Kuen, Kenny (appointed on 9 March 2009)  
Mr. Huang Hsing Hua  
Mr. Lai Woon Ching  
Mr. Lam Shun Fu, Percy (re-designated as Non-executive Director  
w.e.f. 1 February 2009 and the terms ended on 12 May 2009)  
Mr. Lo Wai Ming

In accordance with Article 112 of the Company's Articles of Association, Messrs. Chang Ching Yi, Steven, Choy Kwok Hung, Patrick, Leung Kwong Wai, and Sun, Patrick, will retire by rotation at the forthcoming annual general meeting. Messrs. Choy Kwok Hung, Patrick, Leung Kwong Wai, and Sun, Patrick, being eligible, offer themselves for re-election while Mr. Chang Ching Yi, Steven, though eligible, has decided not to offer himself for re-election.

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

### Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

### Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, or its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 26 to 28.

## Directors' and Chief Executive's interests and short positions in the shares and underlying shares of the Company or any associated corporation

As at 31 December 2009, the interests and short positions of each director and chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

| Ordinary shares of HK\$0.10 each in the Company as at 31 December 2009 |       |                |                         |  |             |   |
|--|-------|----------------|-------------------------|--|-------------|---|
| Name of directors  |       | Directly owned |                         | Beneficially owned shares <sup>(i)</sup> | Total       | % of the issued shares capital of the Company |
|  |       | shares         | Options <sup>(iv)</sup> |  |             |   |
| <b>Independent Non-executive Directors</b>                             |       |                |                         |  |             |   |
| Sun, Patrick   | Long  | 800,000        | 1,500,000               | —  | 2,300,000   | 0.09%   |
|  | Short | —              | —                       | —  | —           | —   |
| Choy Kwok Hung, Patrick  | Long  | 1,712,000      | 2,500,000               | —  | 4,212,000   | 0.17%   |
|  | Short | —              | —                       | —  | —           | —   |
| Wong Yuet Leung, Frankie   | Long  | —              | 2,500,000               | —  | 2,500,000   | 0.10%   |
|  | Short | —              | —                       | —  | —           | —   |
| <b>Non-executive Directors</b>   |       |                |                         |  |             |   |
| Chang Ching Yi, Steven   | Long  | 1,800,000      | 2,500,000               | —  | 4,300,000   | 0.18%   |
|  | Short | —              | —                       | —  | —           | —   |
| Lam Pak Lee  | Long  | 800,000        | 2,500,000               | —  | 3,300,000   | 0.13%   |
|  | Short | —              | —                       | —  | —           | —   |
| Sheu Wei Fu<br>(alternate to Lam Pak Lee)                              | Long  | —              | —                       | —  | —           | —   |
|  | Short | —              | —                       | —  | —           | —   |
| <b>Executive Directors</b>   |       |                |                         |  |             |   |
| Leung Kwong Wai  | Long  | 120,900,308    | 3,520,000               | 1,500,000 <sup>(ii)</sup>                | 125,920,308 | 5.15%   |
|  | Short | —              | —                       | 1,500,000 <sup>(ii)</sup>                | 1,500,000   | 0.06%   |
| Cheung Wai Kuen, Kenny   | Long  | 100,000        | 1,000,000               | 1,000,000 <sup>(iii)</sup>               | 2,100,000   | 0.09%   |
|  | Short | —              | —                       | 1,000,000 <sup>(iii)</sup>               | 1,000,000   | 0.04%   |
| Huang Hsing Hua  | Long  | 9,922,746      | 2,500,000               | 228,000 <sup>(ii)</sup>                  | 12,650,746  | 0.52%   |
|  | Short | —              | —                       | 228,000 <sup>(ii)</sup>                  | 228,000     | 0.01%   |
| Lai Woon Ching   | Long  | 25,671,032     | 2,550,000               | 228,000 <sup>(ii)</sup>                  | 28,449,032  | 1.16%   |
|  | Short | —              | —                       | 228,000 <sup>(ii)</sup>                  | 228,000     | 0.01%   |
| Lo Wai Ming  | Long  | 32,344,179     | 2,500,000               | 228,000 <sup>(ii)</sup>                  | 35,072,179  | 1.43%   |
|  | Short | —              | —                       | 228,000 <sup>(ii)</sup>                  | 228,000     | 0.01%   |

(i) The shares are held by HSBC International Trust Limited (the "Trustee") for the benefits of the directors. Under the terms and conditions of the Share Award Plan, 40% of the shares will be vested 1 year from the grant date and the remaining 60% will be vested 2 years from the grant date.

(ii) The shares for Messrs. Leung Kwong Wai, Huang Hsing Hua, Lai Woon Ching and Lo Wai Ming are to be vested by 30 June 2010.

(iii) The shares were awarded to Mr. Cheung Wai Kuen, Kenny ("Mr. Cheung") on 17 March 2009 pursuant to the commitment on Mr. Cheung's additional role in Display System Solution with effect from 12 September 2008 on top of his role as CEO of WE3 Technology Company Limited, a subsidiary of the Group. 400,000 shares and 600,000 shares for Mr. Cheung shall be vested respectively on 18 March 2010 and 18 March 2011.

(iv) These are options granted under the Share Option Scheme with more details on pages 36 to 39.

## REPORT OF THE DIRECTORS (continued)

### Directors' and Chief Executive's interests and short positions in the shares and underlying shares of the Company or any associated corporation (continued)

Saved as disclosed above, at no time during the year, the directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporation required to be disclosed pursuant to the SFO.

During the year, Mr. Lo Wai Ming, Executive Director and Mr. Choy Kwok Hung, Independent Non-executive Director through investment vehicles under their control invested in Beijing LED Lighting Engineering Co., Ltd ("BJ-LED"), an associated company of the Group, at the same time and same term of the Group's investment in BJ-LED. The investment vehicles hold 9% and 4% respectively in BJ-LED.

Saved as disclosed above, at no time during the year was the Company, its subsidiaries or its associated corporation a party to any arrangement to enable the directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation other than Mr. Leung Kwong Wai who holds shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiary has more than one member.

### Substantial shareholders' interests and/or short positions in the shares and underlying shares of the Company

The register of substantial shareholders required to be kept by the Company under section 336 of Part XV of the SFO shows that as at 31 December 2009, the Company had been notified of the following substantial shareholders' interests and short positions in the shares or underlying shares of the Company, being interests of 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive of the Company.

| Ordinary shares of HK\$0.10 each in the Company as at 31 December 2009 |                                    |          |                       |  |
|--|------------------------------------|----------|-----------------------|--|
| Name   | Capacity                           | Position | Number of shares held | % of the issued share capital of the Company |
| China Electronics Corporation  | Interest of controlled corporation | Long     | 664,288,000           | 27.14%                                       |

Saved as disclosed above, the Company had not been notified of any interest or short positions in the shares or underlying shares of the Company as at 31 December 2009.

### Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### Major suppliers and customers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

#### Purchases

|                                   |     |
|-----------------------------------|-----|
| — the largest supplier            | 43% |
| — five largest suppliers combined | 79% |

#### Sales

|                                   |     |
|-----------------------------------|-----|
| — the largest customer            | 20% |
| — five largest customers combined | 60% |

None of the Directors of the Company, their associates or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

### Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares as at 20 April 2010.

### Compliance with the Code on Corporate Governance Practices

The Company has complied with the applicable Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the year ended 31 December 2009.

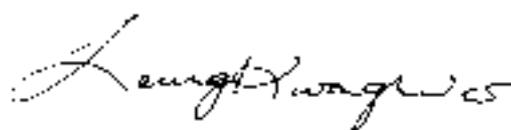
### Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has its own written guidelines on securities transactions by Directors and relevant employees on no less exacting terms than the required standard set out in Appendix 10 of the Listing Rules. Having made specific enquiry to all Directors, all of them were in compliance with such guidelines during the year ended 31 December 2009.

### Independent Auditor

The consolidated financial statements for the year ended 31 December 2009 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



**LEUNG Kwong Wai**

*Managing Director*

Hong Kong, 20 April 2010

# INDEPENDENT AUDITOR'S REPORT



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22/F, Prince's Building  
Central, Hong Kong

## TO THE SHAREHOLDERS OF SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Solomon Systech (International) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 46 to 98, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong, 20 April 2010

# CONSOLIDATED FINANCIAL STATEMENTS

|    |  |
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# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

|   | Note | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------|------------------|------------------|
| Sales   | 5    | 61,832           | 92,813           |
| Cost of sales   |      | (41,449)         | (75,891)         |
| Gross profit  |      | 20,383           | 16,922           |
| Other income  | 6    | 1,382            | 653              |
| Other gain/(loss) - net   | 7    | 3,412            | (5,116)          |
| Research and development costs  |      | (14,259)         | (19,327)         |
| Selling and distribution expenses   |      | (3,266)          | (3,682)          |
| Administrative expenses   |      | (8,449)          | (12,630)         |
| Other operating expenses  |      | (1,032)          | (4,671)          |
| Operating loss  |      | (1,829)          | (27,851)         |
| Interest income   | 8    | 2,104            | 4,603            |
| Finance costs   | 11   | (15)             | (1)              |
| Share of results of associated companies  | 18   | (791)            | (432)            |
| Loss before income tax  |      | (531)            | (23,681)         |
| Income tax credit   | 12   | 1,216            | 283              |
| Profit/(loss) for the year  |      | 685              | (23,398)         |
| Attributable to:  |      |                  |                  |
| – The equity holders of the Company   |      | 684              | (23,408)         |
| – Minority interest   |      | 1                | 10               |
|   |      | 685              | (23,398)         |
| Earnings/(loss) per share for profit/(loss)<br>attributable to the equity holders of the Company:<br>(expressed in US cent per share) | 14   |                  |                  |
| – Basic   |      | 0.03             | (0.97)           |
| – Diluted   |      | 0.03             | (0.96)           |
| Dividend  | 15   | 3,158            | 9,466            |

The notes on pages 53 to 98 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

|  | <b>2009</b><br><b>US\$'000</b> | 2008<br>US\$'000 |
|--|--------------------------------|------------------|
| Profit/(loss) for the year                     | <b>685</b>                     | (23,398)         |
| Other comprehensive income for the year:       |                                |                  |
| – Currency translation differences             | <b>4</b>                       | 445              |
| Total comprehensive income/(loss) for the year | <b>689</b>                     | (22,953)         |
| Attributable to:                               |                                |                  |
| – The equity holders of the Company            | <b>688</b>                     | (22,963)         |
| – Minority interest                            | <b>1</b>                       | 10               |
|  | <b>689</b>                     | (22,953)         |

The notes on pages 53 to 98 form an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2009

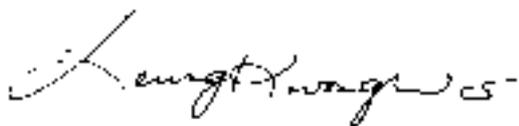
|   | Note  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|-------|------------------|------------------|
| <b>ASSETS</b>   |       |                  |                  |
| <b>Non-current assets</b>   |       |                  |                  |
| Goodwill and intangible assets  | 16    | —                | —                |
| Property, plant and equipment   | 17    | 6,621            | 8,859            |
| Investments in associated companies   | 18    | 4,493            | 5,661            |
| Available-for-sale financial assets   | 20    | 2,346            | 2,535            |
|   |       | <b>13,460</b>    | 17,055           |
| <b>Current assets</b>   |       |                  |                  |
| Inventories   | 22    | 10,302           | 6,738            |
| Trade and other receivables   | 23    | 13,456           | 11,920           |
| Financial assets at fair value through profit or loss                         | 24    | 20,035           | 15,634           |
| Other financial assets  | 21    | 2,713            | 4,167            |
| Pledged bank deposits   |       | 130              | 130              |
| Short-term fixed deposits   | 21    | 45,318           | 46,897           |
| Cash and cash equivalents   | 21    | 44,798           | 59,801           |
|   |       | <b>136,752</b>   | 145,287          |
| <b>Total assets</b>   |       | <b>150,212</b>   | 162,342          |
| <b>EQUITY</b>   |       |                  |                  |
| <b>Capital and reserves attributable to the equity holders of the Company</b> |       |                  |                  |
| Share capital   | 25    | 31,542           | 31,516           |
| Reserves  | 27(a) |                  |                  |
| Proposed final dividend   | 15    | 3,158            | 9,466            |
| Own shares held   |       | (858)            | (1,458)          |
| Others  |       | 101,989          | 104,043          |
|   |       | <b>135,831</b>   | 143,567          |
| <b>Minority interest in equity</b>  |       | —                | 229              |
| <b>Total equity</b>   |       | <b>135,831</b>   | 143,796          |

# CONSOLIDATED BALANCE SHEET (continued)

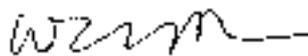
As at 31 December 2009

|   | Note | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------|------------------|------------------|
| <b>LIABILITIES</b>                          |      |                  |                  |
| <b>Non-current liabilities</b>              |      |                  |                  |
| Obligations under finance leases            | 28   | 7                | 3                |
| Other payables                              | 30   | 133              | 265              |
| Bank loan                                   | 31   | 708              | —                |
| Deferred income tax liabilities             | 29   | 50               | 108              |
|   |      | <b>898</b>       | 376              |
| <b>Current liabilities</b>                  |      |                  |                  |
| Trade and other payables                    | 30   | 12,391           | 15,893           |
| Bank loan                                   | 31   | 86               | —                |
| Current income tax liabilities              |      | 1,000            | 2,271            |
| Obligations under finance leases            | 28   | 6                | 6                |
|   |      | <b>13,483</b>    | 18,170           |
| <b>Total liabilities</b>                    |      | <b>14,381</b>    | 18,546           |
| <b>Total equity and liabilities</b>         |      | <b>150,212</b>   | 162,342          |
| <b>Net current assets</b>                   |      | <b>123,269</b>   | 127,117          |
| <b>Total asset less current liabilities</b> |      | <b>136,729</b>   | 144,172          |

The notes on pages 53 to 98 form an integral part of these consolidated financial statements.



**LEUNG Kwong Wai**  
Managing Director



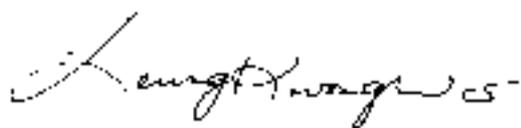
**LAI Woon Ching**  
Director

# BALANCE SHEET

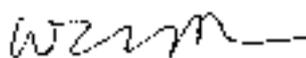
As at 31 December 2009

|   | Note  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|-------|------------------|------------------|
| <b>ASSETS</b>   |       |                  |                  |
| <b>Non-current assets</b>   |       |                  |                  |
| Property, plant and equipment   | 17    | —                | 17               |
| Investments in subsidiaries   | 19(a) | 67,620           | 67,528           |
|   |       | <b>67,620</b>    | 67,545           |
| <b>Current assets</b>   |       |                  |                  |
| Trade and other receivables   |       | 519              | 479              |
| Amounts due from subsidiaries   | 19(b) | 19,514           | 28,847           |
| Financial assets at fair value through profit or loss                         | 24    | 15,580           | 11,405           |
| Other financial assets  | 21    | 2,713            | 3,167            |
| Short-term fixed deposits   | 21    | 45,318           | 36,224           |
| Cash and cash equivalents   | 21    | 11,862           | 20,101           |
|   |       | <b>95,506</b>    | 100,223          |
| <b>Total assets</b>   |       | <b>163,126</b>   | 167,768          |
| <b>EQUITY</b>   |       |                  |                  |
| <b>Capital and reserves attributable to the equity holders of the Company</b> |       |                  |                  |
| Share capital   | 25    | 31,542           | 31,516           |
| Reserves  | 27(b) |                  |                  |
| Proposed final dividend   | 15    | 3,158            | 9,466            |
| Others  |       | 127,898          | 126,417          |
| <b>Total equity</b>   |       | <b>162,598</b>   | 167,399          |
| <b>LIABILITIES</b>  |       |                  |                  |
| <b>Non-current liabilities</b>  |       |                  |                  |
| Deferred income tax liabilities   | 29    | —                | 3                |
| <b>Current liabilities</b>  |       |                  |                  |
| Amounts due to subsidiaries   | 19(b) | 48               | 193              |
| Accrued expenses and other payables   |       | 480              | 173              |
|   |       | <b>528</b>       | 366              |
| <b>Total liabilities</b>  |       | <b>528</b>       | 369              |
| <b>Total equity and liabilities</b>   |       | <b>163,126</b>   | 167,768          |
| <b>Net current assets</b>   |       | <b>94,978</b>    | 99,857           |
| <b>Total asset less current liabilities</b>                                   |       | <b>162,598</b>   | 167,402          |

The notes on pages 53 to 98 form an integral part of these financial statements.



**LEUNG Kwong Wai**  
Managing Director



**LAI Woon Ching**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

|  | Attributable to equity holders of the Company |                           |                             |                            |                              |   |                           |                               |                   |                               |                          |
|--|---|---------------------------|-----------------------------|----------------------------|------------------------------|---|---------------------------|-------------------------------|-------------------|-------------------------------|--------------------------|
|  | Share capital<br>US\$'000                     | Share premium<br>US\$'000 | Own shares held<br>US\$'000 | Merger reserve<br>US\$'000 | Exchange reserve<br>US\$'000 | Equity compensation reserve<br>US\$'000 | Other reserve<br>US\$'000 | Retained earnings<br>US\$'000 | Total<br>US\$'000 | Minority interest<br>US\$'000 | Total equity<br>US\$'000 |
| At 1 January 2008  | 31,516  | 82,809                    | (963)                       | 2,082                      | 201                          | 13,468                                  | —                         | 42,778                        | 171,891           | 219                           | 172,110                  |
| <b>Comprehensive income/(loss)</b>                           |   |                           |                             |                            |                              |   |                           |                               |                   |                               |                          |
| Loss for the year  | —   | —                         | —                           | —                          | —                            | —                                       | —                         | (23,408)                      | (23,408)          | 10                            | (23,398)                 |
| Currency translation differences                             | —   | —                         | —                           | —                          | 445                          | —                                       | —                         | —                             | 445               | —                             | 445                      |
| <b>Total comprehensive income/(loss)</b>                     | —   | —                         | —                           | —                          | 445                          | —                                       | —                         | (23,408)                      | (22,963)          | 10                            | (22,953)                 |
| <b>Transactions with owners</b>                              |   |                           |                             |                            |                              |   |                           |                               |                   |                               |                          |
| 2007 final dividend paid, net of portion for own shares held | —   | —                         | —                           | —                          | —                            | —                                       | —                         | (6,286)                       | (6,286)           | —                             | (6,286)                  |
| Shares purchased for Share Award Scheme                      | —   | —                         | (671)                       | —                          | —                            | —                                       | —                         | —                             | (671)             | —                             | (671)                    |
| Equity compensation  | —   | —                         | 176                         | —                          | —                            | 1,596                                   | —                         | (176)                         | 1,596             | —                             | 1,596                    |
| <b>Total transactions with owners</b>                        | —   | —                         | (495)                       | —                          | —                            | 1,596                                   | —                         | (6,462)                       | (5,361)           | —                             | (5,361)                  |
| At 31 December 2008  | 31,516  | 82,809                    | (1,458)                     | 2,082                      | 646                          | 15,064                                  | —                         | 12,908                        | 143,567           | 229                           | 143,796                  |
| At 1 January 2009  | <b>31,516</b>                                 | <b>82,809</b>             | <b>(1,458)</b>              | <b>2,082</b>               | <b>646</b>                   | <b>15,064</b>                           | <b>—</b>                  | <b>12,908</b>                 | <b>143,567</b>    | <b>229</b>                    | <b>143,796</b>           |
| <b>Comprehensive income</b>                                  |   |                           |                             |                            |                              |   |                           |                               |                   |                               |                          |
| Profit for the year  | —   | —                         | —                           | —                          | —                            | —                                       | —                         | 684                           | 684               | 1                             | 685                      |
| Currency translation differences                             | —   | —                         | —                           | —                          | 4                            | —                                       | —                         | —                             | 4                 | —                             | 4                        |
| <b>Total comprehensive income</b>                            | —   | —                         | —                           | —                          | 4                            | —                                       | —                         | 684                           | 688               | 1                             | 689                      |
| <b>Transactions with owners</b>                              |   |                           |                             |                            |                              |   |                           |                               |                   |                               |                          |
| 2008 final dividend paid, net of portion for own shares held | —   | —                         | —                           | —                          | —                            | —                                       | —                         | (9,466)                       | (9,466)           | —                             | (9,466)                  |
| Shares issued from exercise of share options (note 25)       | 26  | 46                        | —                           | —                          | —                            | —                                       | —                         | —                             | 72                | —                             | 72                       |
| Equity compensation  | —   | —                         | 600                         | —                          | —                            | 740                                     | —                         | (600)                         | 740               | —                             | 740                      |
| Purchase of minority interest                                | —   | —                         | —                           | —                          | —                            | —                                       | 230                       | —                             | 230               | (230)                         | —                        |
| <b>Total transactions with owners</b>                        | 26  | 46                        | 600                         | —                          | —                            | 740                                     | 230                       | (10,066)                      | (8,424)           | (230)                         | (8,654)                  |
| At 31 December 2009  | <b>31,542</b>                                 | <b>82,855</b>             | <b>(858)</b>                | <b>2,082</b>               | <b>650</b>                   | <b>15,804</b>                           | <b>230</b>                | <b>3,526</b>                  | <b>135,831</b>    | <b>—</b>                      | <b>135,831</b>           |

The notes on pages 53 to 98 form an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

|  | Note  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--|-------|------------------|------------------|
| <b>Operating activities</b>  |       |                  |                  |
| Cash (used in)/generated from operations                                     | 33(a) | (9,957)          | 3,664            |
| Hong Kong income tax paid  |       | (132)            | (837)            |
| Overseas income tax refunded/(paid)  |       | 19               | (40)             |
| Interest paid on the bank loan   |       | (14)             | —                |
| Interest element of finance lease rental payments                            |       | (1)              | (1)              |
| <b>Net cash (used in)/generated from operating activities</b>                |       | <b>(10,085)</b>  | 2,786            |
| <b>Investing activities</b>  |       |                  |                  |
| Purchases of property, plant and equipment                                   | 17    | (1,028)          | (4,913)          |
| Proceeds from disposal of property, plant and equipment                      | 33(b) | 11               | 4                |
| Acquisition of associated companies  | 18    | (690)            | (5,557)          |
| Advance to an associated company   | 18    | —                | (60)             |
| Proceeds from disposal of an available-for-sale financial asset              | 20    | 284              | —                |
| Decrease/(increase) in short-term fixed deposits                             |       | 1,579            | (36,897)         |
| Decrease/(increase) in financial assets at fair value through profit or loss |       | 28               | (17,659)         |
| Decrease/(increase) in other financial assets                                |       | 1,454            | (418)            |
| Interest received  |       | 2,039            | 5,337            |
| <b>Net cash generated from/(used in) investing activities</b>                |       | <b>3,677</b>     | (60,163)         |
| <b>Financing activities</b>  |       |                  |                  |
| Purchase of ordinary shares for Share Award Scheme                           |       | —                | (671)            |
| Payment of capital element of finance leases                                 |       | (7)              | (10)             |
| Dividend paid  |       | (9,466)          | (6,286)          |
| Proceeds from exercise of share options                                      |       | 72               | —                |
| Proceeds from bank loan  |       | 794              | —                |
| <b>Net cash used in financing activities</b>                                 |       | <b>(8,607)</b>   | (6,967)          |
| Net decrease in cash and cash equivalents                                    |       | (15,015)         | (64,344)         |
| Exchange gain on cash and cash equivalents                                   |       | 12               | 76               |
| <b>Cash and cash equivalents at 1 January</b>                                |       | <b>59,801</b>    | 124,069          |
| <b>Cash and cash equivalents at 31 December</b>                              |       | <b>44,798</b>    | 59,801           |
| <b>Analysis of balances of cash and cash equivalents:</b>                    |       |                  |                  |
| – Bank balances and cash   |       | 44,798           | 59,801           |

The notes on pages 53 to 98 form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information

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

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

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

These consolidated financial statements are presented in US dollars, unless otherwise stated.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1. Basis of preparation

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

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

#### (a) Standards, amendments and interpretations to existing standards effective in 2009

The Group has adopted the following new standards, amendments and interpretations to existing standards (“new HKFRS”) effective from 1 January 2009:

- |                       |  |
|-----------------------|--|
| • HKAS 1 (Revised)    | Presentation of financial statements           |
| • HKFRS 2 (Amendment) | Share-based payment                            |
| • HKFRS 7             | Financial instruments: disclosures (Amendment) |
| • HKFRS 8             | Operating segments                             |

#### **HKAS 1 (Revised) – Presentation of financial statements**

The revised standard prohibits the presentation of items of income and expenses (that is, “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity.

The Group has elected to present two statements: a consolidated income statement and a consolidated statement of comprehensive income with all non-owner changes in equity presented. All owner changes in equity were presented in the consolidated statement of changes in equity. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on the equity and the earnings/(loss) per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### 2.1. Basis of preparation (continued)

- (a) Standards, amendments and interpretations to existing standards effective in 2009 (continued)

##### **HKFRS 2 (Amendment) – Share-based payment**

The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not taken as vesting conditions. These features have to be included in the grant date fair value for transactions with employees and others providing similar services; they will not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have a material impact on the Group's or Company's financial statements.

##### **HKFRS 7- Financial instruments – disclosures (Amendment)**

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on the equity and earnings/(loss) per share.

##### **HKFRS 8 - Operating segments**

HKFRS 8 replaces HKAS 14, "Segment reporting", and requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. There has been no change in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

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

The following new standards, revised standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

|   |  | <b>Effective for annual periods beginning or after</b> |
|---|--|--|
| • HKFRS 1 (Revised)   | First-time adoption of HKFRS   | 1 July 2009  |
| • HKFRS 3 (Revised)   | Business combinations  | 1 July 2009  |
| • HKFRS 9   | Financial instruments  | 1 January 2013   |
| • HKAS 24 (Revised)   | Related party disclosures  | 1 January 2011   |
| • HKAS 27 (Revised)   | Consolidated and separate financial statements                             | 1 July 2009  |
| • Amendment to HKAS 32  | Classification of rights issues  | 1 February 2010  |
| • Amendment to HKAS 39  | Financial instruments: recognition and measurement - eligible hedged items | 1 July 2009  |
| • Amendment to HK(IFRIC) - Int 14                               | Prepayments of a minimum funding requirement                               | 1 January 2011   |
| • HK(IFRIC) - Int 17  | Distributions of non-cash assets to owners                                 | 1 July 2009  |
| • HK(IFRIC) - Int 18  | Transfers of assets from customers   | 1 July 2009  |
| • HK(IFRIC) – Int 19  | Extinguishing financial liabilities with equity instruments                | 1 July 2010  |
| • Amendment to HKFRS 1  | Additional exemptions for first-time adopters                              | 1 January 2010   |
| • Amendment to HKFRS 2  | Group cash-settled share-based payment transactions                        | 1 January 2010   |
| • Various improvements to HKFRS published by HKICPA in May 2009 |  |  |

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

### 2.1. Basis of preparation *(continued)*

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

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.

### 2.2. Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

- (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

A special purpose entity is an entity over which the Group has the power to govern the financial and operating policies. A special purpose entity is fully consolidated from the date on which control is transferred to the Group and is de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (note 2.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (note 2.7). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### 2.2. Consolidation (continued)

(b) Transactions with non-controlling interest

The Group treats transactions with non-controlling interest as transactions with equity holders of the Company. For purchases from minority interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interest are also recorded in equity.

(c) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investments in associated companies include goodwill identified on acquisition, net of any accumulated impairment losses (note 2.7).

The Group's share of its associated companies' post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in associated companies equal or exceed its interest in the associated companies, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associated companies.

Unrealized gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

#### 2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors led by the Group Chief Executive Officer ("CEO") who makes strategic decisions.

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

### 2.4. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in the consolidated income statement and other changes in the carrying amount are recognized in equity.

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

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### 2.5. Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

|  |   |
|--|---|
| Freehold land                            | — (not amortized)   |
| Building                                 | 2%  |
| Leasehold improvements                   | 20% or over the unexpired lease period,<br>whichever is shorter |
| Furniture, fixtures and office equipment | 33.33%  |
| Machinery and laboratory equipment       | 12.50% to 33.33%  |
| Motor vehicles                           | 33.33%  |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "administrative expenses" in the consolidated income statement.

#### 2.6. Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies and is tested annually for impairment as part of the overall balance. Separately recognized goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Patents and intellectual property

Patents and intellectual property are shown at historical cost. Patents and intellectual property have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of patents and intellectual property over their estimated useful lives of five years.

#### 2.7. Impairment of investments in subsidiaries, associated companies and non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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

### 2.8. Financial assets

#### 2.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- (a) Financial assets at fair value through profit or loss  
Financial assets at fair value through profit or loss and other financial assets are financial assets designated by management as fair value through profit or loss upon initial recognition. Financial assets are classified in this category because they are managed and their performance are evaluated on a fair value basis, in accordance with the Group's investment strategy. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.
- (b) Loans and receivables  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables include trade and other receivables, cash and cash equivalents and fixed deposits in the balance sheet (notes 2.11 and 2.12).
- (c) Available-for-sale financial assets  
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

#### 2.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognized on trade-date i.e. the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement as "other gain/(loss) - net" in the year in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated income statement as part of "other income" when the Group's right to receive payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement as "other operating expenses".

Interest on available-for-sale financial assets calculated using the effective interest method is recognized in the consolidated income statement as part of "other income". Dividends on available-for-sale financial assets are recognized in the consolidated income statement as "other income" when the Group's right to receive payments is established.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### 2.8. Financial assets (continued)

##### 2.8.2 Recognition and measurement (continued)

The fair value of financial instruments that are not publicly traded in market but with active valuation from reputable financial institution (for example, structured products linked to equity price) is determined by reference to the dealer's quote or input from reputable financial institutions.

Available-for-sale financial assets that do not have quoted market prices in any active markets and those fair values cannot be reliably measured are stated at cost less impairment loss.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indication that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated income statement, is removed from equity and recognized in the consolidated income statement. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in note 2.11.

#### 2.9. Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. Trading derivatives are classified as a current asset or liability.

Changes in the fair value of the derivative instruments which do not qualify for hedge accounting are recognized immediately within "other gain/(loss) - net" in the consolidated income statement.

#### 2.10. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials and subcontracting charges. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 2.11. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and defaults or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognized in the consolidated income statement within "selling and distribution expenses". When a trade receivable is uncollectible, it is written off against the provision account of trade receivables. Subsequent recoveries of amounts previously written off are credited against "selling and distribution expenses" in the consolidated income statement.

#### 2.12. Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held at call with banks and fixed deposits with original maturity within 3 months or less. The cash and cash equivalents meet the definition of loans and receivables and are measured at amortized cost using the effective interest method.

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

### 2.13. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and share options are shown in equity as a deduction from the proceed.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from the equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received net of any directly attributable incremental transaction costs and the related income tax effects is included in the equity attributable to the Company's equity holders.

### 2.14. Current and deferred income tax

The income tax for the year comprises current and deferred tax and is recognized in the consolidated income statement. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

### 2.15. Employee benefits

(a) Pension obligations

The Group operates defined contribution plans, under which the Group pays fixed contributions into separate entities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the shares or share options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or share options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of shares or share options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of shares or share options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the consolidated income statement, and a corresponding adjustment to equity over the remaining vesting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### 2.15. Employee benefits (continued)

(b) Share-based compensation (continued)

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Under the Share Award Plan, directors and employees of the Group are entitled to receive shares in the Company. The shares held under trust by HSBC International Trustee Limited for the benefit of the directors and employees, have been created by capitalizing the Company's retained earnings to pay up consideration in full prior to the listing of the Company in the Stock Exchange. The pool of shares brought forward at the time of listing of the Company has been allocated to grantees. The Trustee may be instructed to buy shares from the market using the funds held by the Trustee. Detail of outstanding shares can be referred to note 26(b) to the consolidated financial statements.

The Company also adopted the Share Option Scheme under which options may be granted to subscribe for the Company's shares. Please refer to note 26(a).

(c) Employee leave entitlements

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

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

(d) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for profit-sharing bonus based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### 2.16. Provisions

Provisions for restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense.

#### 2.17. Trade payables and other payables

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

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

### 2.18. Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of products in the ordinary course of the Group's activities. Revenue is shown net of discount and after eliminating sales within the Group. The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of products

The Group manufactures and sells proprietary IC products and system solutions. Sales of products are recognized on the transfer of risks and rewards of ownerships, which generally coincides with the time of shipment/delivery.

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(c) Other income

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

### 2.19. Leases *(as the lessee)*

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(b) Finance lease

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance lease payment is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

### 2.20. Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### 2.21. Research and development

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs with a finite useful life that have been capitalized as an intangible asset are amortized from the commencement of the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually in accordance with HKAS 36 - Impairment of Assets.

#### 2.22. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors as appropriate.

### 3. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk.

#### 3.1. Financial risk factors

##### (a) Market risk

###### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong Dollar ("HKD"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities in foreign operations.

Since the United States Dollar ("USD") is pegged to the HKD, the management considered that the Group does not have any material foreign exchange exposure in this regard.

###### (ii) Price risk

The Group is exposed to price risk because investments held by the Group are classified on the consolidated balance sheet as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in financial instruments, the Group diversifies its portfolio or invests only on high turnover blue chips with good dividend yield.

At 31 December 2009, the Group held listed equity securities and marketable bonds (note 24). If the equity/bond price had increased/decreased by 10% with all other variables held constant, the post-tax profit for the year would have been approximately US\$1,303,000 higher/lower (2008 post-tax loss: US\$543,000 lower/higher) as a result of gain/loss on listed equity securities and marketable bonds classified as at fair value through profit or loss.

The Group's investments in equity-linked deposits also exposed the Group to equity securities price risk as their fair value were mainly linked to the share prices of the underlying shares traded in Hong Kong stock market.

The investments in the available-for-sales financial assets of US\$ 2,346,000 (2008: US\$ 2,535,000) are exposed to price risk. As all of the available-for-sale financial assets held by the Group do not have quoted market price in any active market and are stated at cost less impairment loss. The price risk is therefore reflected in the impairment loss.

##### (b) Credit risk

Customers of the Group are mainly well-known distributors with sound financial background. In addition, the Group has policies in place to ensure that sales of products are made to customers with appropriate credit history and within their respective credit limits.

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. Deposits are only placed with reputable banks and financial institutions. For credit exposures to customers, Group management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The maximum exposure to credit risk at the reporting date is the carrying value of the trade and other receivables. As at 31 December 2009, 38% of the gross trade receivables was related to reputable distributors and 60% was related to the top 5 customers.

The Group has been monitoring the receivables aging closely. As at 31 December 2009, past due amount accounted for 23% (2008: 75%) of total trade receivables. No provision for impairment was made to these receivables since majority of the overdue sum has been settled after the balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. Financial risk management (continued)

#### 3.1. Financial risk factors (continued)

##### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groups based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying balances, as the impact of discounting is not significant.

|                                       | Group            |                  | Company          |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | 2009<br>US\$'000 | 2008<br>US\$'000 | 2009<br>US\$'000 | 2008<br>US\$'000 |
| Due within 12 months                  |                  |                  |                  |                  |
| Trade and other payables              | 12,391           | 15,893           | 480              | 173              |
| Bank loan including interest portions | 99               | —                | —                | —                |
| Obligations under finance leases      | 6                | 6                | —                | —                |
| Amounts due to subsidiaries           | —                | —                | 48               | 193              |
| Due after 12 months                   |                  |                  |                  |                  |
| Other payables                        | 133              | 265              | —                | —                |
| Bank loan including interest portions | 816              | —                | —                | —                |
| Obligations under finance leases      | 7                | 3                | —                | —                |

##### (d) Cash flow and fair value interest rate risk

Except for the cash and cash equivalents, bank deposits, other financial assets and certain bonds and notes classified as financial assets at fair value through profit or loss ("FVTPL"), the Group has no other significant interest-bearing assets or liabilities.

The bonds and notes were issued at fixed interest rates which exposed the Group to fair value interest rate risk.

The Group's other financial assets consist of structured deposits, which were linked to foreign currencies such as Australian Dollar, Euro Dollar, Japanese Yen, etc. Upon maturity, if the market exchange rate has reached the benchmarks as defined in respective contracts, the Group would be entitled to interest income at the agreed interest rate ranging from 4.0% to 9.3% (2008: 3.0% to 10.0%) and receiving both principal and interest income in original currency. Otherwise, the Group would still be entitled to interest income at the agreed interest rate but both principal and interest income would be converted at the agreed exchange rate to the linked foreign currency. The structured deposits were issued at fixed interest rates which exposed the Group to fair value interest rate risk.

The investments in available-for-sale financial assets and FVTPL did not have material interest rate risk.

Since there is no significant borrowing in the Group and the cash and cash equivalents and bank deposits are under short maturity terms, the cash flow and fair value interest rate risk is considered to be low.

#### 3.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or repurchase shares.

During 2009, the Group had no material borrowing. The reduction in shareholders' funds is mainly due to the payment of dividend and increase in working capital.

### 3. Financial risk management (continued)

#### 3.3. Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presented the assets (liabilities: Nil) that were measured at fair value at 31 December 2009 of the Group and the Company:

#### (a) Group

|   | Level 1<br>US\$'000 | Level 2<br>US\$'000 | Level 3<br>US\$'000 | Total<br>US\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
| <b>Assets</b>   |                     |                     |                     |                   |
| Financial assets at fair value through profit or loss |                     |                     |                     |                   |
| <b>Unlisted</b>                                       |                     |                     |                     |                   |
| Equity-linked deposits                                | —                   | 2,497               | —                   | 2,497             |
| Deposit notes   | —                   | 3,476               | —                   | 3,476             |
| Investment fund                                       | —                   | 1,034               | —                   | 1,034             |
| <b>Marketable bonds</b>                               | <b>4,812</b>        | <b>—</b>            | <b>—</b>            | <b>4,812</b>      |
| <b>Listed in Hong Kong</b>                            |                     |                     |                     |                   |
| Equity securities                                     | 8,144               | —                   | —                   | 8,144             |
| Fund  | 72                  | —                   | —                   | 72                |
| Other financial assets                                | —                   | 2,713               | —                   | 2,713             |
|   | <b>13,028</b>       | <b>9,720</b>        | <b>—</b>            | <b>22,748</b>     |

#### (b) Company

|   | Level 1<br>US\$'000 | Level 2<br>US\$'000 | Level 3<br>US\$'000 | Total<br>US\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
| <b>Assets</b>   |                     |                     |                     |                   |
| Financial assets at fair value through profit or loss |                     |                     |                     |                   |
| <b>Unlisted</b>                                       |                     |                     |                     |                   |
| Equity-linked deposits                                | —                   | 2,497               | —                   | 2,497             |
| Deposit notes   | —                   | 1,476               | —                   | 1,476             |
| <b>Marketable bonds</b>                               | <b>3,391</b>        | <b>—</b>            | <b>—</b>            | <b>3,391</b>      |
| <b>Listed in Hong Kong</b>                            |                     |                     |                     |                   |
| Equity securities                                     | 8,144               | —                   | —                   | 8,144             |
| Fund  | 72                  | —                   | —                   | 72                |
| Other financial assets                                | —                   | 2,713               | —                   | 2,713             |
|   | <b>11,607</b>       | <b>6,686</b>        | <b>—</b>            | <b>18,293</b>     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. Financial risk management (continued)

#### 3.3. Fair value estimation (continued)

##### Financial assets at fair value through profit or loss – listed equity investments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group was the current bid price. These instruments were included in level 1. Instruments included in level 1 comprised primarily listed equity investments classified as financial assets at fair value through profit or loss.

##### Other financial assets at fair value through profit or loss

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter instruments) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The equity-linked deposits, deposits notes and investment funds which were designated at fair value through profit or loss are categorized in level 2 of the fair value hierarchy.

The fair value of financial instruments is established by using advanced financial valuation technique by the reputable financial institutions. Valuation technique can range from simple discounted cash flow analysis to complex pricing model such as Binomial Option Pricing Model, Monte Carlo Simulation Method, Black-Scholes Option Pricing Model, etc.

Available-for-sale financial assets that do not have quoted market prices in any active markets and those fair values cannot be reliably measured are stated at cost less impairment.

The carrying value less impairment provision of cash, bank loan, other financial assets, trade receivables and payables approximate their fair values.

### 4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below.

#### 4.1. Income tax

The Group is subject to income tax in several jurisdictions. Significant judgement is required in determining the worldwide provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision and deferred tax assets and liabilities in the period in which such determination is made.

#### 4.2. Equity compensation

In determining the total expenses for the Group's share-based compensation plans, the Group estimates the number of options or shares that are expected to become exercisable or vested at the date of grant. At each balance sheet date before the options or shares become fully exercisable or vested, the Group will revise the total expenses where the number of share options or shares that are expected to become exercisable or vested is different from previously estimated.

## 4. Critical accounting estimates and judgements *(continued)*

### 4.3. Estimate impairment of investments in associated companies

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.7. The recoverable amounts of goodwill arising from acquisition of associated companies have been determined based on the higher of fair value less cost-to-sell or value-in-use calculations. These calculations require the use of estimates (note 18).

### 4.4. Provision for impairment of trade receivables

The Group makes provision for impairment of trade receivables based on an assessment of the recoverability of trade receivables. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables and provision for impaired receivables in the year in which such estimate has been changed.

### 4.5. Provision for obsolete or slow moving inventories

The Group makes provision for obsolete or slow moving inventories based on consideration of obsolescence of raw materials and work in progress and the net realizable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventory and impairment provision in the year in which such estimate has been changed.

## 5. Segment information – Group

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

The Group has been operating in one single 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 led by the Group CEO (Managing Director). The Executive Directors 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\$61,832,000 and US\$92,813,000 for the years ended 31 December 2009 and 2008 respectively.

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

### Sales

|                                  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|----------------------------------|------------------|------------------|
| Hong Kong                        | 28,380           | 56,026           |
| Taiwan                           | 10,353           | 13,272           |
| China                            | 9,601            | 10,237           |
| Korea                            | 7,909            | 2,934            |
| South East Asia                  | 1,769            | 2,718            |
| Japan                            | 1,667            | 4,501            |
| United States of America ("USA") | 255              | 550              |
| Others                           | 1,898            | 2,575            |
|                                  | <b>61,832</b>    | <b>92,813</b>    |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. Segment information – Group (continued)

#### Total assets

|           | 2009<br>US\$'000 | 2008<br>US\$'000 |
|-----------|------------------|------------------|
| Hong Kong | 130,686          | 146,776          |
| China     | 11,004           | 6,685            |
| Taiwan    | 7,319            | 7,413            |
| Others    | 1,203            | 1,468            |
|           | <b>150,212</b>   | 162,342          |

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

#### Capital expenditures

|                 | Property, plant<br>and equipment |                  | Investment in<br>associated companies |                  |
|-----------------|----------------------------------|------------------|---------------------------------------|------------------|
|                 | 2009<br>US\$'000                 | 2008<br>US\$'000 | 2009<br>US\$'000                      | 2008<br>US\$'000 |
| Hong Kong       | 725                              | 1,383            | —                                     | 4,700            |
| China           | 198                              | 298              | 690                                   | 857              |
| Taiwan          | 23                               | 2,801            | —                                     | —                |
| South East Asia | 94                               | 422              | —                                     | —                |
| Others          | —                                | 9                | —                                     | —                |
|                 | <b>1,040</b>                     | 4,913            | <b>690</b>                            | 5,557            |

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

### 6. Other income – Group

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Gain on disposal of financial assets at fair value through profit or loss | 1,017            | 2                |
| Dividend income   | 186              | 125              |
| Government grant  | 131              | 460              |
| Others  | 48               | 66               |
|   | <b>1,382</b>     | 653              |

### 7. Other gain/(loss) – net – Group

|  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--|------------------|------------------|
| Financial assets at fair value through profit or loss (note 24): |                  |                  |
| – Fair value gain  | 3,529            | 234              |
| – Fair value loss  | (117)            | (5,474)          |
| Derivative financial instruments – fair value gain               | —                | 124              |
|  | <b>3,412</b>     | (5,116)          |

## 8. Interest income – Group

|  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--|------------------|------------------|
| Bank interest income   | 1,461            | 3,815            |
| Interest income from financial assets at fair value through profit or loss | 643              | 788              |
|  | <b>2,104</b>     | 4,603            |

## 9. Expenses by nature – Group

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

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Cost of inventories sold  | 41,683           | 67,198           |
| (Gain)/loss on disposal of property, plant and equipment (note 33(b))                 | (9)              | 1                |
| Auditor's remuneration  | 148              | 162              |
| Depreciation of owned property, plant and equipment                                   | 2,762            | 5,296            |
| Depreciation of leased property, plant and equipment                                  | 3                | 3                |
| Operating leases for land and buildings   | 1,182            | 1,289            |
| Employee benefit expenses (excluding Directors' emoluments (note 10(a)))              | 15,553           | 19,448           |
| Directors' emoluments (note 10(b))  | 1,248            | 1,711            |
| Net exchange (gain)/loss  | (104)            | 712              |
| Provision for impairment loss of available-for-sale financial assets                  | —                | 2,151            |
| Gain on disposal of an available-for-sale financial asset (note 20)                   | (95)             | —                |
| Provision for impairment loss of investments in associated companies (note 18)        | 1,067            | 1,555            |
| Provision for impairment loss of goodwill (note 16)                                   | —                | 931              |
| (Write-back of provision)/provision for impairment of receivables (note 23)           | (27)             | 29               |
| (Write-back of provision)/provision for obsolete or slow moving inventories (note 22) | (3,538)          | 4,716            |

## 10. Employee benefit expenses – Group

### (a) Employee benefit expenses

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Wages and salaries  | 13,650           | 16,838           |
| Discretionary bonuses                                     | 72               | 129              |
| Equity compensation – shares and share options            | 418              | 923              |
| Pension costs – defined contribution plans <sup>(i)</sup> | 438              | 637              |
| Other employee benefits                                   | 975              | 921              |
|   | <b>15,553</b>    | 19,448           |

(i) Forfeited contributions to certain defined contribution plans will be utilized to reduce contributions. During the year, there was US\$20,000 of contribution being forfeited (2008: US\$51,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. Employee benefit expenses – Group (continued)

#### (b) Directors' emoluments

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

| Name of directors                      | Fees<br>US\$'000 | Salary<br>US\$'000 | Other<br>benefits <sup>(i)</sup><br>US\$'000 | 2009<br>Employer's<br>contribution<br>to pension<br>scheme<br>US\$'000 | Subtotal<br>US\$'000 | Equity<br>compensation <sup>(ii)</sup><br>US\$'000 | Total<br>US\$'000 |
|--|------------------|--------------------|--|--|----------------------|--|-------------------|
| Sun, Patrick                           | 31               | —                  | —  | —  | 31                   | 17   | 48                |
| Choy Kwok Hung, Patrick                | 28               | —                  | —  | —  | 28                   | 17   | 45                |
| Wong Yuet Leung, Frankie               | 26               | —                  | —  | —  | 26                   | 17   | 43                |
| Chang Ching Yi, Steven                 | 21               | —                  | —  | —  | 21                   | 17   | 38                |
| Lam Pak Lee                            | 21               | —                  | —  | —  | 21                   | 17   | 38                |
| Sheu Wei Fu (alternate to Lam Pak Lee) | —                | —                  | —  | —  | —                    | —  | —                 |
| Leung Kwong Wai                        | —                | 244                | 6  | 2  | 252                  | 117  | 369               |
| Cheung Wai Kuen, Kenny                 | —                | 172                | 2  | 2  | 176                  | 24   | 200               |
| Huang Hsing Hua                        | —                | 113                | 3  | 2  | 118                  | 31   | 149               |
| Lai Woon Ching                         | —                | 116                | 2  | 2  | 120                  | 31   | 151               |
| Lam Shun Fun, Percy                    | —                | 14                 | —  | —  | 14                   | 3  | 17                |
| Lo Wai Ming                            | —                | 114                | 3  | 2  | 119                  | 31   | 150               |
| <b>Total</b>                           | <b>127</b>       | <b>773</b>         | <b>16</b>                                    | <b>10</b>  | <b>926</b>           | <b>322</b>   | <b>1,248</b>      |

| Name of directors                      | Fees<br>US\$'000 | Salary<br>US\$'000 | Other<br>benefits <sup>(i)</sup><br>US\$'000 | 2008<br>Employer's<br>contribution<br>to pension<br>scheme<br>US\$'000 | Subtotal<br>US\$'000 | Equity<br>compensation <sup>(ii)</sup><br>US\$'000 | Total<br>US\$'000 |
|--|------------------|--------------------|--|--|----------------------|--|-------------------|
| Sun, Patrick                           | 33               | —                  | —  | —  | 33                   | 14   | 47                |
| Choy Kwok Hung, Patrick                | 28               | —                  | —  | —  | 28                   | 14   | 42                |
| Kao Kuen, Charles                      | 4                | —                  | —  | —  | 4                    | 10   | 14                |
| Wong Yuet Leung, Frankie               | 28               | —                  | —  | —  | 28                   | 14   | 42                |
| Chang Ching Yi, Steven                 | 22               | —                  | —  | —  | 22                   | 14   | 36                |
| Lam Pak Lee                            | 23               | —                  | —  | —  | 23                   | 14   | 37                |
| Sheu Wei Fu (alternate to Lam Pak Lee) | —                | —                  | —  | —  | —                    | —  | —                 |
| Leung Kwong Wai                        | —                | 281                | 7  | 11   | 299                  | 317  | 616               |
| Huang Hsing Hua                        | —                | 126                | 8  | 6  | 140                  | 55   | 195               |
| Lai Woon Ching                         | —                | 134                | 2  | 6  | 142                  | 56   | 198               |
| Lam Shun Fun, Percy                    | —                | 170                | 2  | 8  | 180                  | 110  | 290               |
| Lo Wai Ming                            | —                | 131                | 2  | 6  | 139                  | 55   | 194               |
| <b>Total</b>                           | <b>138</b>       | <b>842</b>         | <b>21</b>                                    | <b>37</b>  | <b>1,038</b>         | <b>673</b>   | <b>1,711</b>      |

(i) Other benefits include leave pay, insurance premium and other allowances.

(ii) This represents the amount charged to the consolidated income statement under the requirements of HKFRS 2. Equity compensation granted in prior years with vesting term extended into the year has an impact to the current year.

## 10. Employee benefit expenses – Group (continued)

### (c) Equity compensation to Directors

More details for the Equity Compensation Scheme can be referred to note 26 to the consolidated financial statements. Details of the share options and shares granted to each of the directors and their corresponding fair values are listed as below:

| Name of directors                      | 2009  |   |  |   | 2008  |  |  |   |
|--|---|---|--|---|---|--|--|---|
|  | Number of share options granted (in thousand units) | Fair value of the share options at grant date <sup>(i)</sup> (US\$'000) | Number of shares granted <sup>(ii)</sup> (in thousand units) | Fair value of the shares at grant date <sup>(ii)</sup> (US\$'000) | Number of share options granted (in thousand units) | Fair value of the share options at grant date (US\$'000) | Number of shares granted (in thousand units) | Fair value of the shares at grant date (US\$'000) |
| Sun, Patrick                           | 1,000   | 28.0  | —  | —   | 1,000   | 6.4  | —  | —   |
| Choy Kwok Hung, Patrick                | 1,000   | 28.0  | —  | —   | 1,000   | 6.4  | —  | —   |
| Wong Yuet Leung, Frankie               | 1,000   | 28.0  | —  | —   | 1,000   | 6.4  | —  | —   |
| Chang Ching Yi, Steven                 | 1,000   | 28.0  | —  | —   | 1,000   | 6.4  | —  | —   |
| Lam Pak Lee                            | 1,000   | 28.0  | —  | —   | 1,000   | 6.4  | —  | —   |
| Sheu Wei Fu (alternate to Lam Pak Lee) | —   | —   | —  | —   | —   | —  | —  | —   |
| Leung Kwong Wai                        | 1,000   | 28.0  | —  | —   | 1,000   | 6.4  | 2,500  | 89.0  |
| Cheung Wai Kuen, Kenny <sup>(i)</sup>  | 1,000   | 28.0  | 1,000  | 18.0  | —   | —  | —  | —   |
| Huang Hsing Hua                        | 1,000   | 28.0  | —  | —   | 1,000   | 6.4  | 380  | 13.0  |
| Lai Woon Ching                         | 1,000   | 28.0  | —  | —   | 1,000   | 6.4  | 380  | 13.0  |
| Lam Shun Fun, Percy                    | —   | —   | —  | —   | 1,000   | 6.4  | 380  | 13.0  |
| Lo Wai Ming                            | 1,000   | 28.0  | —  | —   | 1,000   | 6.4  | 380  | 13.0  |
| <b>Total</b>                           | <b>10,000</b>                                       | <b>280.0</b>  | <b>1,000</b>   | <b>18.0</b>   | <b>10,000</b>                                       | <b>64.0</b>  | <b>4,020</b>                                 | <b>141.0</b>                                      |

(i) Other than the 1,000,000 shares awarded to Mr. Cheung Wai Kuen, Kenny on 17 March 2009 pursuant to the commitment on his additional role in Display System Solution with effect from 12 September 2008 on top of his role as CEO of WE3 Technology Company Limited, a subsidiary of the Group. No share under the Share Award Plan of the Company was granted to the Executive Directors of the Company during the year.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. Employee benefit expenses – Group (continued)

#### (d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2008: four) directors whose emoluments are reflected in the analysis above.

The emoluments paid to the remaining individual, if any is as follows:

|  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--|------------------|------------------|
| Number of individuals (excluding Directors of the Company) | —                | 1                |

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Basic salaries, other allowances and benefits in kind | —                | 200              |
| Discretionary bonuses                                 | —                | —                |
| Employer's contribution to pension scheme             | —                | 9                |
| Equity compensation                                   | —                | 209              |
|   | —                | —                |
|   | —                | 209              |

The emoluments fell within the following band:

| Emolument bands            | Number of individuals |      |
|----------------------------|-----------------------|------|
|                            | 2009                  | 2008 |
| US\$200,001 to US\$250,000 | —                     | 1    |

During the year, no emoluments have been paid to the Directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group (2008: Nil).

### 11. Finance costs – Group

|                                    | 2009<br>US\$'000 | 2008<br>US\$'000 |
|------------------------------------|------------------|------------------|
| Interest element of finance leases | 1                | 1                |
| Interest expense of bank loan      | 14               | —                |
|                                    | 15               | 1                |

## 12. Income tax – Group

No provision for Hong Kong and overseas income taxes has been made as the Group has no assessable profits for the year ended 31 December 2009 and 2008.

|  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--|------------------|------------------|
| Current income tax:                                |                  |                  |
| – Hong Kong  | —                | —                |
| – Overseas   | —                | —                |
| Write-back of income tax provisions in prior years | (1,158)          | (170)            |
| Deferred income tax                                | (58)             | (113)            |
| <b>Income tax credit</b>                           | <b>(1,216)</b>   | <b>(283)</b>     |

The tax on the Group's 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:

|  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--|------------------|------------------|
| Loss before income tax   | (531)            | (23,681)         |
| Income tax calculated at a tax rate of 16.5%                         | (88)             | (3,907)          |
| Income not subject to tax  | (1,309)          | (1,486)          |
| Expenses not deductible for tax purposes                             | 274              | 2,195            |
| Income tax losses not recognized                                     | 1,065            | 3,095            |
| Re-measurement of deferred income tax – change in Hong Kong tax rate | —                | (13)             |
| Effect of different income tax rates in other countries              | —                | 3                |
| Write-back of income tax provisions in prior years                   | (1,158)          | (170)            |
| <b>Income tax credit</b>   | <b>(1,216)</b>   | <b>(283)</b>     |

- (i) Hong Kong income tax rate for 2009 is 16.5% (2008: 16.5%).
- (ii) The write-back of provisions in prior years is related to the receipt of notices of revised tax assessment in July 2009 for the years of assessment 2005, 2006 and 2007 from the Hong Kong Inland Revenue Department to Solomon Systech Limited, a wholly-owned operating subsidiary of the Group, confirming the tax treatment on equity compensation expenses.
- (iii) 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\$5,234,000 (2008: US\$4,022,000) in respect of losses amounting to US\$31,722,000 (2008: US\$24,376,000) that can be carried forward against future taxable profits. These tax losses have no expiry date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 13. Profit attributable to the equity holders of the Company

The profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of profit of US\$3,853,000 (2008: US\$3,623,000).

### 14. Earnings/(loss) per share

The calculation of basic and diluted earnings/(loss) per share is based on the profit/(loss) attributable to the equity holders of the Company. The profit attributable to the equity holders of the Company for the year is US\$684,000 (2008 loss: US\$23,408,000).

The basic earnings/(loss) per share is based on the weighted average number of 2,429,743,177 (2008: 2,416,930,170) ordinary shares in issue during the year excluding own shares held during the year.

The diluted earnings/(loss) per share is based on 2,457,281,028 (2008: 2,437,669,973) 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.

|  | 2009          | 2008          |
|--|---------------|---------------|
| Weighted average number of ordinary shares in issue                              | 2,429,743,177 | 2,416,930,170 |
| Adjustments for:   |               |               |
| – allocated own shares under Share Award Scheme                                  | 16,330,699    | 20,739,803    |
| – share options  | 11,207,152    | —             |
| Weighted average number of ordinary shares for diluted earnings/(loss) per share | 2,457,281,028 | 2,437,669,973 |

### 15. Dividend

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Final dividend attributed to the year:  |                  |                  |
| – 2009 final dividend, proposed, of HK\$0.01 (approximately 0.13 US cent) per ordinary share <sup>(i)</sup> | 3,158            | —                |
| – 2008 final dividend, paid, of HK\$0.03 (approximately 0.39 US cent) per ordinary share <sup>(ii)</sup>    | —                | 9,466            |
| Dividend attributed to the year   | 3,158            | 9,466            |

(i) At a meeting held on 20 April 2010, the Directors recommended the payment of a final dividend of HK\$0.01 per ordinary share, totaling HK\$24,473,000 (approximately US\$3,158,000) for the year ended 31 December 2009. The proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2010.

(ii) At a meeting held on 25 March 2009, the Directors recommended the payment of a final dividend of HK\$0.03 per ordinary share for the year ended 31 December 2008. The final dividend was paid on 20 May 2009.

## 16. Goodwill and intangible assets – Group

|  | Goodwill<br>US\$'000 | Patents and<br>intellectual<br>property<br>US\$'000 | Total<br>US\$'000 |
|--|----------------------|---|-------------------|
| At 1 January 2008                      |                      |   |                   |
| Cost                                   | 931                  | 4,500   | 5,431             |
| Accumulated amortization               | —                    | (4,500)   | (4,500)           |
| Net book amount                        | 931                  | —   | 931               |
| <b>Year ended 31 December 2008</b>     |                      |   |                   |
| Opening net book amount                | 931                  | —   | 931               |
| Impairment charge <sup>(i)</sup>       | (931)                | —   | (931)             |
| Closing net book amount                | —                    | —   | —                 |
| At 31 December 2008                    |                      |   |                   |
| Cost                                   | —                    | 4,500   | 4,500             |
| Accumulated amortization               | —                    | (4,500)   | (4,500)           |
| Net book amount                        | —                    | —   | —                 |
| <b>Year ended 31 December 2009</b>     |                      |   |                   |
| <b>Opening net book amount</b>         | —                    | —   | —                 |
| <b>Impairment charge<sup>(i)</sup></b> | —                    | —   | —                 |
| <b>Closing net book amount</b>         | —                    | —   | —                 |
| <b>At 31 December 2009</b>             |                      |   |                   |
| <b>Cost</b>                            | —                    | 4,500   | 4,500             |
| <b>Accumulated amortization</b>        | —                    | (4,500)   | (4,500)           |
| <b>Net book amount</b>                 | —                    | —   | —                 |

- (i) The Group conducts impairment reviews of intangible assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable and tests for impairment of goodwill annually in accordance with the requirements of the relevant accounting standards.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 17. Property, plant and equipment

|                                    | Group                            |                                       |   |   |                               | Total<br>US\$'000 | Company   |
|------------------------------------|----------------------------------|---------------------------------------|---|---|-------------------------------|-------------------|---|
|                                    | Land and<br>Building<br>US\$'000 | Leasehold<br>improvements<br>US\$'000 | Furniture,<br>fixtures and<br>office<br>equipment<br>US\$'000 | Machinery<br>and<br>laboratory<br>equipment<br>US\$'000 | Motor<br>vehicles<br>US\$'000 |                   | Furniture,<br>fixtures and<br>office<br>equipment<br>US\$'000 |
| <b>At 1 January 2008</b>           |                                  |                                       |   |   |                               |                   |   |
| Cost                               | —                                | 2,172                                 | 13,945  | 16,369  | 127                           | 32,613            | 611   |
| Accumulated depreciation           | —                                | (1,873)                               | (10,988)  | (10,740)  | (127)                         | (23,728)          | (390)   |
| Net book amount                    | —                                | 299                                   | 2,957   | 5,629   | —                             | 8,885             | 221   |
| <b>Year ended 31 December 2008</b> |                                  |                                       |   |   |                               |                   |   |
| Opening net book amount            | —                                | 299                                   | 2,957   | 5,629   | —                             | 8,885             | 221   |
| Exchange differences               | —                                | 4                                     | 30  | 331   | —                             | 365               | —   |
| Additions                          | 1,662                            | 310                                   | 1,478   | 1,393   | 70                            | 4,913             | —   |
| Disposals                          | —                                | —                                     | (1)   | (4)   | —                             | (5)               | —   |
| Depreciation                       | —                                | (287)                                 | (2,434)   | (2,572)   | (6)                           | (5,299)           | (204)   |
| Closing net book amount            | 1,662                            | 326                                   | 2,030   | 4,777   | 64                            | 8,859             | 17  |
| <b>At 31 December 2008</b>         |                                  |                                       |   |   |                               |                   |   |
| Cost                               | 1,662                            | 2,470                                 | 14,488  | 18,237  | 197                           | 37,054            | 611   |
| Accumulated depreciation           | —                                | (2,144)                               | (12,458)  | (13,460)  | (133)                         | (28,195)          | (594)   |
| Net book amount                    | 1,662                            | 326                                   | 2,030   | 4,777   | 64                            | 8,859             | 17  |
| <b>Year ended 31 December 2009</b> |                                  |                                       |   |   |                               |                   |   |
| Opening net book amount            | 1,662                            | 326                                   | 2,030   | 4,777   | 64                            | 8,859             | 17  |
| Exchange differences               | (1)                              | (2)                                   | (1)   | (5)   | —                             | (9)               | —   |
| Additions                          | —                                | 142                                   | 824   | 74  | —                             | 1,040             | —   |
| Write-off                          | —                                | —                                     | (472)   | (30)  | —                             | (502)             | —   |
| Reclassification                   | —                                | —                                     | (1)   | 1   | —                             | —                 | —   |
| Disposals                          | —                                | —                                     | (2)   | —   | —                             | (2)               | —   |
| Depreciation                       | (19)                             | (117)                                 | (821)   | (1,785)   | (23)                          | (2,765)           | (17)  |
| Closing net book amount            | 1,642                            | 349                                   | 1,557   | 3,032   | 41                            | 6,621             | —   |
| <b>At 31 December 2009</b>         |                                  |                                       |   |   |                               |                   |   |
| Cost                               | 1,662                            | 2,532                                 | 12,255  | 18,243  | 189                           | 34,881            | 611   |
| Accumulated depreciation           | (20)                             | (2,183)                               | (10,698)  | (15,211)  | (148)                         | (28,260)          | (611)   |
| Net book amount                    | 1,642                            | 349                                   | 1,557   | 3,032   | 41                            | 6,621             | —   |

- (i) Bank loan is secured by the land and building. Freehold land in Taiwan of US\$686,000 (2008: US\$686,000) was included in the land and building.
- (ii) Depreciation expense of US\$1,316,000 (2008: US\$1,760,000) has been charged in cost of sales, US\$1,049,000 (2008: US\$2,486,000) in research and development costs and US\$400,000 (2008: US\$1,053,000) in administrative expenses.
- (iii) The net book value of furniture, fixtures and office equipment of US\$1,557,000 (2008: US\$2,030,000) includes an amount of US\$10,000 (2008: Nil) in respect of assets held under finance leases.

## 18. Investments in associated companies – Group

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| At 1 January  | 5,661            | 2,031            |
| Acquisition of associated companies   | 690              | 5,557            |
| Advance to an associated company  | —                | 60               |
| Share of results of associated companies  | (791)            | (432)            |
| Provision for impairment loss of investments in associated companies <sup>(i)</sup> | (1,067)          | (1,555)          |
| At 31 December  | 4,493            | 5,661            |

- (i) The carrying amounts of the investments in associated companies have been reduced through recognition of an impairment loss of US\$1,067,000 for Advanced Photoelectronic Technology Limited ("APT"). The loss has been included in other operating expenses in the consolidated income statement.

### (a) Investment during the year

In late November 2008, a proposal to invest in Beijing LED Lighting Engineering Co., Ltd. (北京愛爾益地照明工程有限公司), a limited liability company incorporated in China, which is engaged in LED system design and contract installation business, by injecting CNY4,700,000 (approximately US\$690,000) for a 47% equity interest was approved by the Investment Committee of the Company. The PRC governmental approval on its transformation to a sino-foreign joint venture was obtained and cash injection was made on 24 April 2009.

The details of the net assets of the associated companies acquired as of the date of acquisition during 2009 and 2008 are as follows:

|  | Unaudited   |                     |   |                     |   |                     |
|--|---|---------------------|---|---------------------|---|---------------------|
|  | 2009  |                     | 2008  |                     |   |                     |
|  | Beijing LED Lighting<br>Engineering Co. Ltd.<br>("BJ-LED")      |                     | Shenzhen aigo Research<br>and Development Co., Ltd.<br>("aigo") |                     | Advanced Photoelectronic<br>Technology Limited<br>("APT")       |                     |
|  | Carrying amount<br>in the books of<br>the associated<br>company |                     | Carrying amount<br>in the books of<br>the associated<br>company |                     | Carrying amount<br>in the books of<br>the associated<br>company |                     |
|  | Fair value<br>US\$'000  | company<br>US\$'000 | Fair value<br>US\$'000  | company<br>US\$'000 | Fair value<br>US\$'000  | company<br>US\$'000 |
| Cash and cash equivalents              | 1,050   | 1,050               | 354   | 354                 | 10,150  | 10,150              |
| Intangible assets                      | 313   | 1,175               | 182   | 182                 | 1,079   | 1,079               |
| Property, plant and equipment          | 16  | 16                  | 148   | 148                 | 2,051   | 2,051               |
| Inventories                            | 153   | 153                 | 115   | 115                 | 916   | 916                 |
| Trade and other receivables            | 37  | 37                  | 403   | 403                 | 253   | 253                 |
| Trade and other payables               | (101)   | (101)               | (192)   | (192)               | (2,579)   | (2,579)             |
| Net assets                             | 1,468   | 2,330               | 1,010   | 1,010               | 11,870  | 11,870              |
| Fair value of net assets acquired      | 690   |                     | 202   |                     | 2,564   |                     |
| Purchase consideration settled in cash | 690   |                     | 857   |                     | 4,700   |                     |
| Goodwill                               | —   |                     | 655   |                     | 2,136   |                     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 18. Investments in associated companies – Group (continued)

#### (b) Goodwill associated with the acquisition of associated companies

Investments in associated companies as at 31 December 2009 included goodwill of US\$655,000 attributable to the investment in aigo (深圳市愛國者嵌入式系統科技有限公司) since March 2008. aigo is engaged in the design, development and distribution of mobile multimedia solutions. The goodwill is attributable to the workforce of aigo and the synergy expected to arise after the acquisition.

#### Impairment test for investments in associated companies

The recoverable amount is determined based on the fair value less cost-to-sell. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less the cost of disposal. The valuation was performed on 31 December 2009 and the recoverable amount determined based on fair value less cost to sell was considered appropriate. Before arriving at the valuation, the following principal factors were considered:

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

#### Assumptions used in the impairment test

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

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

## 18. Investments in associated companies – Group (continued)

### (c) Aggregated assets & liabilities and the results of the year

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

| Name   | Place of incorporation and operation | Principal activities   | Particulars of issued shares held                          | As at 31 December 2009 |                      | For the year ended 31 December 2009 |               | Interest held indirectly |
|--|--------------------------------------|--|--|------------------------|----------------------|-------------------------------------|---------------|--------------------------|
|  |                                      |  |  | Assets US\$'000        | Liabilities US\$'000 | Revenue US\$'000                    | Loss US\$'000 |                          |
| EPD Technology Limited                           | Hong Kong                            | Design, development, manufacturing & distribution of E-paper display modules | 100,000 ordinary shares of HK\$1 each                      | 983                    | 2,352                | 30                                  | (484)         | 40%                      |
| Kitronix Limited                                 | Hong Kong                            | Design, development, manufacturing & distribution of LCD modules             | 9,500,000 ordinary shares of HK\$1 each                    | 6,460                  | 1,410                | 15,511                              | (561)         | 25%                      |
| Shenzhen aigo Research and Development Co., Ltd. | China                                | Design, development and distribution of mobile multimedia solutions          | 20% of the registered and paid-up capital of CNY5,000,000  | 1,149                  | 246                  | 645                                 | (56)          | 20%                      |
| Advanced Photoelectronic Technology Limited      | Hong Kong                            | Development, manufacturing, sale of high- brightness light-emitting devices  | 841,469 ordinary shares of HK\$1 each                      | 10,097                 | 1,672                | 1,359                               | (2,891)       | 20.6% <sup>(i)</sup>     |
| Beijing LED Lighting Engineering Co., Ltd.       | China                                | LED system design and contract installation                                  | 47% of the registered and paid-up capital of CNY10,000,000 | 1,425                  | 101                  | 355                                 | (171)         | 47%                      |

(i) The percentage of holding was lowered to 10.3% upon the completion of new fund raising in March 2010. More details can be found under Note 35 - Event after the balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 18. Investments in associated companies – Group (continued)

#### (c) Aggregated assets & liabilities and the results of the year (continued)

| Name   | Place of incorporation and operation | Principal activities   | Particulars of issued shares held                         | As at 31 December 2008 |                      | For the year ended 31 December 2008 |                        |                          |
|--|--------------------------------------|--|---|------------------------|----------------------|-------------------------------------|------------------------|--------------------------|
|  |                                      |  |   | Assets US\$'000        | Liabilities US\$'000 | Revenue US\$'000                    | Profit/(loss) US\$'000 | Interest held indirectly |
| EPD Technology Limited                           | Hong Kong                            | Design, development, manufacturing & distribution of E-paper display modules | 100,000 ordinary shares of HK\$1 each                     | 1,402                  | 2,260                | 52                                  | (518)                  | 40%                      |
| Kitronix Limited                                 | Hong Kong                            | Design, development, manufacturing & distribution of LCD modules             | 9,500,000 ordinary shares of HK\$1 each                   | 7,047                  | 1,426                | 21,431                              | 25                     | 25%                      |
| Shenzhen aigo Research and Development Co., Ltd. | China                                | Design, development and distribution of mobile multimedia solutions          | 20% of the registered and paid-up capital of CNY5,000,000 | 1,127                  | 167                  | 1,336                               | 93                     | 20%                      |
| Advanced Photoelectronic Technology Limited      | Hong Kong                            | Development, manufacturing, sale of high-brightness light-emitting devices   | 841,469 ordinary shares of HK\$1 each                     | 11,227                 | 376                  | 53                                  | (1,852)                | 21.6%                    |

## 19. Investments in subsidiaries

### (a) Investments in subsidiaries

|   | 2009<br>US\$'000 | Company<br>2008<br>US\$'000 |
|---|------------------|-----------------------------|
| Investments in unlisted shares, at cost | 68,236           | 67,683                      |
| Less: Provision for impairment loss     | (616)            | (155)                       |
|   | <b>67,620</b>    | 67,528                      |

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

|                                     | 2009<br>US\$'000 | Company<br>2008<br>US\$'000 |
|-------------------------------------|------------------|-----------------------------|
| Amounts due from subsidiaries       | 26,020           | 34,203                      |
| Less: Provision for impairment loss | (6,506)          | (5,356)                     |
|                                     | <b>19,514</b>    | 28,847                      |
| Amounts due to subsidiaries         | <b>(48)</b>      | (193)                       |

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

The carrying value of the amounts due from/(to) subsidiaries of the Company approximate their respective fair values.

The provision for impairment was concluded from the assessment of the cash flow position of the subsidiaries, taking into consideration of the forecasted performance and development of those subsidiaries by management.

In January 2010, a proposal to set up a wholly-owned subsidiary in Beijing with registered capital of US\$8 million was approved by the Board of Directors. Solomon Systech (Beijing) Limited was incorporated on 19 March 2010. Capital injections have to be completed within 2 years from date of incorporation. US\$120,000 will be injected latest by mid of June 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 19. Investments in subsidiaries (continued)

#### (c) Particulars of subsidiaries

The following is a list of the principal subsidiaries at 31 December 2009:

| Name                                      | Place of incorporation and kind of legal entity | Principal activities and place of operation  | Particulars of issued share capital       | Interest held |
|---|---|--|---|---------------|
| <b>Directly held:</b>                     |   |  |   |               |
| Solomon Systech Limited ("SSL")           | Hong Kong, limited liability company ("LLC")    | Design, development, distribution of integrated circuits and system solutions, Hong Kong | 188,585,271 ordinary shares of HK\$1 each | 100%          |
| Ample Pacific Limited ("Ample")           | The British Virgin Islands, LLC                 | Investment holding, Hong Kong  | 50,000 ordinary shares of US\$1 each      | 100%          |
| Broadwood Global Limited ("BGL")          | The British Virgin Islands, LLC                 | Investment holding, Hong Kong  | 50,000 ordinary shares of US\$1 each      | 100%          |
| Cornway International Limited ("Cornway") | The British Virgin Islands, LLC                 | Investment holding, Hong Kong  | 50,000 ordinary shares of US\$1 each      | 100%          |
| In Achieve Limited ("In Achieve")         | The British Virgin Islands, LLC                 | Investment holding, Hong Kong  | 50,000 ordinary shares of US\$1 each      | 100%          |
| Mentor Ventures Limited ("Mentor")        | The British Virgin Islands, LLC                 | Investment holding, Hong Kong  | 50,000 ordinary shares of US\$1 each      | 100%          |
| Pac-Pacific Limited ("Pac-Pacific")       | Hong Kong, LLC                                  | Investment holding, Hong Kong  | 2 ordinary shares of HK\$1 each           | 100%          |
| WE3 Ventures Limited ("WE3-BVI")          | The British Virgin Islands, LLC                 | Investment holding, Hong Kong  | 108,930 ordinary shares of US\$0.01 each  | 100%          |

## 19. Investments in subsidiaries (continued)

### (c) Particulars of subsidiaries (continued)

| Name  | Place of incorporation and kind of legal entity | Principal activities and place of operation                         | Particulars of issued share capital          | Interest held |
|---|---|---|--|---------------|
| <b>Indirectly held:</b>                               |   |   |  |               |
| Jing Guang Semiconductors (Dongguan) Limited ("JGDG") | China, LLC                                      | Manufacturing of integrated circuits, China                         | US\$5,500,000 registered and paid up capital | 100%          |
| Solomon Systech Inc. ("SSI")                          | U.S.A., LLC                                     | Market research, U.S.A.   | 20,000 ordinary shares of US\$1 each         | 100%          |
| Solomon Systech Japan Company Limited ("SSJCL")       | Japan, LLC                                      | Market research, Japan  | 10,000 ordinary shares of JPY1,000 each      | 100%          |
| Solomon Systech Pte. Ltd. ("SSPL")                    | The Republic of Singapore, LLC                  | Design and distribution of integrated circuits, Singapore           | 480,000 ordinary shares of SGD1 each         | 100%          |
| Solomon Systech (Shenzhen) Limited ("SSSZ")           | China, LLC                                      | Design and distribution of integrated circuits, China               | HK\$8,000,000 registered and paid up capital | 100%          |
| Solomon Systech Taiwan Limited ("SST")                | Republic of China ("Taiwan"), LLC,              | Market research, Taiwan   | 5,000,000 ordinary shares of TWD10 each      | 100%          |
| Systech Technology China Limited ("STCL")             | Hong Kong, LLC                                  | Investment holding, Hong Kong                                       | 10,000 ordinary shares of HK\$1 each         | 100%          |
| WE3 Technology Company Limited ("WE3")                | Hong Kong, LLC                                  | Design, development & distribution of handsets solutions, Hong Kong | 32,390,000 ordinary shares of HK\$1 each     | 100%          |
| 維駿通訊產品（深圳）有限公司  | China, LLC                                      | Design and development of electronic & wireless application, China  | CNY100,000 registered and paid up capital    | 100%          |

In early August 2009, the Group acquired the remaining 10% interest in WE3-BVI and 13.3% interest in WE3 at a consideration of US\$5,500. As a result, WE3-BVI, WE3 and its wholly-owned subsidiary 維駿通訊產品（深圳）有限公司 became the wholly-owned subsidiaries of the Group.

The following table summarizes the consideration paid or payable for WE3-BVI and WE3 and the amounts of the net assets acquired at the acquisition date:

|                            | 2009<br>US\$'000 | 2008<br>US\$'000 |
|----------------------------|------------------|------------------|
| Consideration              | 5                | —                |
| Acquisition-related costs  | (5)              | —                |
| Minority interest acquired | (230)            | —                |
|                            | (230)            | —                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. Available-for-sale financial assets – Group

|                                     | 2009<br>US\$'000 | 2008<br>US\$'000 |
|-------------------------------------|------------------|------------------|
| Unlisted shares, at cost            | 4,781            | 6,337            |
| Less: Provision for impairment loss | (2,435)          | (3,802)          |
|                                     | <b>2,346</b>     | 2,535            |

An investment in available-for-sale financial asset with provision for impairment loss made in previous years was disposed of during the year. The proceeds from disposal of the available-for-sale financial asset is listed below:

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Unlisted shares, at cost  | 1,556            | —                |
| Provision for impairment loss                                   | (1,367)          | —                |
| Unlisted shares, net  | 189              | —                |
| Gain on disposal of an available-for-sale financial asset       | 95               | —                |
| Proceeds from disposal of an available-for-sale financial asset | 284              | —                |

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

|   | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2009<br>US\$'000 | 2008<br>US\$'000 | 2009<br>US\$'000 | 2008<br>US\$'000 |
| Cash at bank and in hand                  | 15,378           | 13,981           | 5,146            | 4,424            |
| Short-term bank deposits <sup>(i)</sup>   | 29,420           | 45,820           | 6,716            | 15,677           |
| Cash and cash equivalents                 | 44,798           | 59,801           | 11,862           | 20,101           |
| Short-term fixed deposits <sup>(ii)</sup> | 45,318           | 46,897           | 45,318           | 36,224           |
| Other financial assets <sup>(iii)</sup>   | 2,713            | 4,167            | 2,713            | 3,167            |
|   | <b>92,829</b>    | 110,865          | <b>59,893</b>    | 59,492           |

(i) The effective interest rate on short-term bank deposits was 1.5% per annum (2008: 3.7% per annum); these deposits have an average maturity of 20 days (2008: 23 days).

(ii) The effective interest rate on short-term fixed deposits was 1.4% per annum (2008: 3.2% per annum); these deposits have an average maturity of 215 days (2008: 124 days).

(iii) Other financial assets represent the structured bank deposits. These deposits have interest rate ranging from 4.0% to 9.3% (2008: 3.0% to 10.0%) and an average maturity of 26 days (2008: 147 days).

## 21. Cash and cash equivalents, short-term fixed deposits and other financial assets *(continued)*

The carrying amounts of the Group's and the Company's cash and cash equivalents, short-term fixed deposits and other financial assets are denominated in the following currencies:

|                        | Group            |                  | Company          |                  |
|------------------------|------------------|------------------|------------------|------------------|
|                        | 2009<br>US\$'000 | 2008<br>US\$'000 | 2009<br>US\$'000 | 2008<br>US\$'000 |
| US Dollar (USD)        | 82,412           | 99,776           | 54,786           | 52,592           |
| Hong Kong Dollar (HKD) | 5,666            | 6,218            | 2,294            | 4,949            |
| Chinese Yuan (CNY)     | 1,400            | 1,491            | —                | —                |
| Other currencies       | 3,351            | 3,380            | 2,813            | 1,951            |
|                        | <b>92,829</b>    | 110,865          | <b>59,893</b>    | 59,492           |

## 22. Inventories – Group

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Finished goods  | 4,607            | 4,957            |
| Raw materials and work in progress                      | 11,721           | 11,885           |
|   | <b>16,328</b>    | 16,842           |
| Less: Provision for obsolete or slow moving inventories | <b>(6,026)</b>   | (10,104)         |
|   | <b>10,302</b>    | 6,738            |

The cost of inventories recognized as an expense and included in cost of sales amounted to US\$41,683,000 (2008: US\$67,198,000).

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

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| At 1 January  | 10,104           | 8,445            |
| Scrap of inventories  | (540)            | (3,057)          |
| (Write-back of provision)/provision for obsolete or slow moving inventories | <b>(3,538)</b>   | 4,716            |
| At 31 December  | <b>6,026</b>     | 10,104           |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 23. Trade and other receivables – Group

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Trade receivables                             | 10,546           | 8,971            |
| Less: provision for impairment of receivables | —                | (60)             |
| Trade receivables - net                       | 10,546           | 8,911            |
| Deposits, prepayments and other receivables   | 2,910            | 3,009            |
|   | <b>13,456</b>    | 11,920           |

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

|                | 2009<br>US\$'000 | 2008<br>US\$'000 |
|----------------|------------------|------------------|
| Current        | 8,166            | 2,188            |
| 1 - 30 days    | 2,029            | 2,530            |
| 31 - 60 days   | 222              | 1,407            |
| 61 - 90 days   | 72               | 861              |
| 91 - 180 days  | 27               | 1,925            |
| 181 - 365 days | 30               | —                |
|                | <b>2,380</b>     | 6,723            |
|                | <b>10,546</b>    | 8,911            |

As at 31 December 2009, trade receivables of US\$2,380,000 (2008: US\$6,723,000) 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:

|                        | 2009<br>US\$'000 | 2008<br>US\$'000 |
|------------------------|------------------|------------------|
| US Dollar (USD)        | 12,314           | 10,592           |
| Hong Kong Dollar (HKD) | 768              | 802              |
| Singapore Dollar (SGD) | 98               | 85               |
| Other currencies       | 276              | 441              |
|                        | <b>13,456</b>    | 11,920           |

As at 31 December 2009, no trade receivables was impaired (2008: US\$60,000) and provided for (2008 provision: US\$60,000).

The ageing of these impaired receivables by overdue date is as follows:

|               | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---------------|------------------|------------------|
| Over 6 months | —                | 60               |

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

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

|  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--|------------------|------------------|
| At 1 January   | 60               | 395              |
| (Write-back of provision)/provision for receivables impairment | (27)             | 29               |
| Uncollectible receivables written off during the year          | (33)             | (364)            |
| At 31 December   | —                | 60               |

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

### 24. Financial assets at fair value through profit or loss

|                            | Group            |                  | Company          |                  |
|----------------------------|------------------|------------------|------------------|------------------|
|                            | 2009<br>US\$'000 | 2008<br>US\$'000 | 2009<br>US\$'000 | 2008<br>US\$'000 |
| <b>Unlisted</b>            |                  |                  |                  |                  |
| Equity-linked deposits     | 2,497            | 4,994            | 2,497            | 4,994            |
| Deposit notes              | 3,476            | 1,973            | 1,476            | 978              |
| Investment fund            | 1,034            | 3,234            | —                | —                |
| <b>Marketable bonds</b>    | 4,812            | 357              | 3,391            | 357              |
| <b>Listed in Hong Kong</b> |                  |                  |                  |                  |
| Equity securities          | 8,144            | 5,030            | 8,144            | 5,030            |
| Fund                       | 72               | 46               | 72               | 46               |
|                            | <b>20,035</b>    | 15,634           | <b>15,580</b>    | 11,405           |

Changes in fair values of financial assets at fair value through profit or loss are recorded in other gain/(loss) — net in the consolidated income statement (note 7).

The fair values of listed financial instruments are based on quoted market prices at the balance sheet date. The equity-linked deposits are structured products linked to equity price which are not listed but with active valuation from reputable financial institution. The fair values of these unlisted financial instruments are determined by reference to the dealer's quote or input from reputable financial institutions.

The carrying amounts of financial assets at fair value through profit or loss are denominated in the following currencies:

|                        | Group            |                  | Company          |                  |
|------------------------|------------------|------------------|------------------|------------------|
|                        | 2009<br>US\$'000 | 2008<br>US\$'000 | 2009<br>US\$'000 | 2008<br>US\$'000 |
| <b>Monetary:</b>       |                  |                  |                  |                  |
| Hong Kong Dollar (HKD) | 2,469            | 3,486            | 2,469            | 3,486            |
| US Dollar (USD)        | 8,451            | 6,762            | 3,996            | 2,533            |
| Other currencies       | 971              | 356              | 971              | 356              |
| <b>Non-monetary:</b>   |                  |                  |                  |                  |
| Hong Kong Dollar (HKD) | 8,144            | 5,030            | 8,144            | 5,030            |
|                        | <b>20,035</b>    | 15,634           | <b>15,580</b>    | 11,405           |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 25. Share capital

|                                    | 2009             |          | 2008             |          |
|------------------------------------|------------------|----------|------------------|----------|
|                                    | Number of shares | US\$'000 | Number of shares | US\$'000 |
| Authorized:                        |                  |          |                  |          |
| – Ordinary shares of HK\$0.10 each | 5,000,000,000    | 64,433   | 5,000,000,000    | 64,433   |
| Issued and fully paid:             |                  |          |                  |          |
| At 1 January                       | 2,445,302,351    | 31,516   | 2,445,302,351    | 31,516   |
| Exercise of share options          | 2,000,000        | 26       | —                | —        |
| At 31 December                     | 2,447,302,351    | 31,542   | 2,445,302,351    | 31,516   |

### 26. Employee compensation scheme

#### (a) The Share Option Scheme

The Company adopted the Share Option Scheme at an extraordinary meeting held on 25 February 2004 and a meeting of the Board on 19 March 2004 under which options may be granted to subscribe for the Company's shares. Participants of the Scheme shall include directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any member of the Group and any advisers, consultants, distributors contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners, service providers of any member of the Group who the Board considers have contributed or will contribute to the Group (the "Participants"). The purpose of the Share Option Scheme is to provide Participants with the opportunity to acquire proprietary interests in the Company and its shares for the benefits of the Company with a flexible mean of either retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to the Participants. The terms of the Scheme are in accordance with the provisions of the Chapter 17 of the Listing Rules on the Stock Exchange.

- On 30 June 2009, 5,500,000 share options granted on 28 June 2006 with an exercise price of HK\$1.98 per share were lapsed and 150,000 share options granted on 7 February 2007 with an exercise price of HK\$1.43 per share were also forfeited and cancelled.
- On 13 July 2009, options to subscribe for 11,000,000 new shares of the Company were granted by the Company to directors and senior management of the Company at a nominal consideration of HK\$1.0 payable by each grantee under the Share Option Scheme. These options are exercisable during the period from 1 July 2010 to 30 June 2012, at the exercise price of HK\$0.632 per share.

## 26. Employee compensation scheme (continued)

### (a) The Share Option Scheme (continued)

Movements in the number of share options outstanding and their related exercise prices are as follows:

| Grant Date      | Exercise price in HK\$ per share | Movement during the year<br>Number of share options (in thousand units) |               |                          |                         |                | Held at 31 December 2009 | Expiry Date   |
|-----------------|----------------------------------|---|---------------|--------------------------|-------------------------|----------------|--------------------------|---------------|
|                 |                                  | Held at 1 January 2009  | Granted       | Exercised <sup>(i)</sup> | Forfeited and Cancelled | Lapsed         |                          |               |
| 28 June 2006    | 1.980                            | 5,500   | —             | —                        | —                       | (5,500)        | —                        | 30 June 2009  |
| 7 February 2007 | 1.430                            | 1,588   | —             | —                        | (60)                    | —              | 1,528                    | 31 March 2011 |
| 7 February 2007 | 1.430                            | 2,382   | —             | —                        | (90)                    | —              | 2,292                    | 31 March 2012 |
| 28 June 2007    | 1.118                            | 6,300   | —             | —                        | —                       | —              | 6,300                    | 30 June 2010  |
| 24 July 2008    | 0.275                            | 11,000  | —             | (2,000)                  | —                       | —              | 9,000                    | 30 June 2011  |
| 13 July 2009    | 0.632                            | —   | 11,000        | —                        | —                       | —              | 11,000                   | 30 June 2012  |
|                 |                                  | <b>26,770</b>   | <b>11,000</b> | <b>(2,000)</b>           | <b>(150)</b>            | <b>(5,500)</b> | <b>30,120</b>            |               |

- (i) Options exercised in 2009 resulted in 2,000,000 shares (2008: Nil) being issued at a weighted average price of HK\$0.275 each (2008: HK\$0 each).

The Company has been using the Black-Scholes Valuation Model to value the share options granted. The key parameters used in the Model and the corresponding fair values of the options granted during 2009 and 2008 are listed below:

|                                     | 2009                         | 2008                      |
|-------------------------------------|------------------------------|---------------------------|
| Date of grant                       | 13 July 2009                 | 24 July 2008              |
| Number of share options granted     | 11,000,000                   | 11,000,000                |
| Total option value                  | US\$307,000<br>HK\$2,382,000 | US\$71,000<br>HK\$547,800 |
| Share price at date of grant (HK\$) | 0.632                        | 0.275                     |
| Exercise price (HK\$)               | 0.632                        | 0.275                     |
| Expected life of options            | 2 years                      | 2 years                   |
| Annualized volatility               | 79.7%                        | 51.1%                     |
| Risk free interest rate             | 0.39%                        | 2.43%                     |
| Dividend payout rate                | 4.9%                         | 10.9%                     |

The Black-Scholes Valuation Model is used to estimate the fair values of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the Model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily closing share prices over the last one year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 26. Employee compensation scheme (continued)

#### (b) The Share Award Plan

The Share Award Plan was adopted by the Company at an extraordinary general meeting held on 25 February 2004 and the Board on 19 March 2004 with an initial pool of 46,223,520 shares held by HSBC International Trustee Limited as Trustee for the benefit of the directors and employees.

Under the terms and conditions of the grant, 40% of the shares will be vested 1 year from the grant date and the remaining 60% will be vested 2 years from the grant date. The pool of shares brought forward at the time of listing of the Company has been allocated to grantees. At 31 December 2009, the number of shares allocated but remained unvested under the Trustee for directors and employees of the Group was 10,904,000 while the total number of shares held by the Trustee was 10,547,520. With the approval of the Remuneration Committee of the Company, the Trustee executed the instruction to replenish the pool by purchasing 2,000,000 shares at a price of HK\$0.67 using the cash held by the Trustee in February 2010.

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

|  | Number of shares |
|--|------------------|
| At 1 January 2009  | 22,507,520       |
| Share purchased by the Trustee from market to replenish the pool | (11,960,000)     |
| Shares vested during the year                                    | —                |
| At 31 December 2009  | 10,547,520       |

The following is a summary of the shares granted, vested and forfeited during the year since the set up of the Share Award Plan:

|                          | Cumulative Total | Number of share (in thousand units) |         |          |          |          |         |
|--------------------------|------------------|-------------------------------------|---------|----------|----------|----------|---------|
|                          |                  | 2009                                | 2008    | 2007     | 2006     | 2005     | 2004    |
| Granted during the year  | 69,740           | 2,800                               | 15,670  | 13,160   | 17,650   | 16,790   | 3,670   |
| Forfeited in 2005        | (80)             | —                                   | —       | —        | —        | (80)     | —       |
| Forfeited in 2006        | (1,092)          | —                                   | —       | —        | (690)    | (402)    | —       |
| Forfeited in 2007        | (1,590)          | —                                   | —       | (330)    | (1,002)  | (258)    | —       |
| Forfeited in 2008        | (3,252)          | —                                   | (1,240) | (1,610)  | (402)    | —        | —       |
| Forfeited in 2009        | (846)            | (110)                               | (568)   | (168)    | —        | —        | —       |
| Forfeited total          | (6,860)          | (110)                               | (1,808) | (2,108)  | (2,094)  | (740)    | —       |
| Vested in 2005           | (1,468)          | —                                   | —       | —        | —        | —        | (1,468) |
| Vested in 2006           | (8,838)          | —                                   | —       | —        | —        | (6,636)  | (2,202) |
| Vested in 2007           | (16,030)         | —                                   | —       | —        | (6,616)  | (9,414)  | —       |
| Vested in 2008           | (13,680)         | —                                   | —       | (4,740)  | (8,940)  | —        | —       |
| Vested in 2009           | (11,960)         | —                                   | (5,648) | (6,312)  | —        | —        | —       |
| Vested total             | (51,976)         | —                                   | (5,648) | (11,052) | (15,556) | (16,050) | (3,670) |
| Allocated but not vested | 10,904           | 2,690                               | 8,214   | —        | —        | —        | —       |

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

## 27. Reserves

### (a) Group

|   | Share<br>premium<br>US\$'000 | Own<br>shares<br>held<br>US\$'000 | Merger<br>reserve<br>US\$'000 | Exchange<br>reserve<br>US\$'000 | Equity<br>compensation<br>reserve<br>US\$'000 | Other<br>reserve<br>US\$'000 | Retained<br>earnings<br>US\$'000 | Total<br>US\$'000 |
|---|------------------------------|-----------------------------------|-------------------------------|---------------------------------|---|------------------------------|----------------------------------|-------------------|
| At 1 January 2008   | 82,809                       | (963)                             | 2,082                         | 201                             | 13,468  | —                            | 42,778                           | 140,375           |
| <b>Comprehensive income/(loss)</b>                              |                              |                                   |                               |                                 |   |                              |                                  |                   |
| Loss for the year   | —                            | —                                 | —                             | —                               | —   | —                            | (23,408)                         | (23,408)          |
| Currency translation differences                                | —                            | —                                 | —                             | 445                             | —   | —                            | —                                | 445               |
| <b>Total comprehensive income/(loss)</b>                        | —                            | —                                 | —                             | 445                             | —   | —                            | (23,408)                         | (22,963)          |
| <b>Transactions with owners</b>                                 |                              |                                   |                               |                                 |   |                              |                                  |                   |
| 2007 final dividend paid, net of<br>portion for own shares held | —                            | —                                 | —                             | —                               | —   | —                            | (6,286)                          | (6,286)           |
| Shares purchased for<br>Share Award Scheme                      | —                            | (671)                             | —                             | —                               | —   | —                            | —                                | (671)             |
| Equity compensation   | —                            | 176                               | —                             | —                               | 1,596   | —                            | (176)                            | 1,596             |
| <b>Total transactions with owners</b>                           | —                            | (495)                             | —                             | —                               | 1,596   | —                            | (6,462)                          | (5,361)           |
| At 31 December 2008   | 82,809                       | (1,458)                           | 2,082                         | 646                             | 15,064  | —                            | 12,908                           | 112,051           |
| At 1 January 2009   | 82,809                       | (1,458)                           | 2,082                         | 646                             | 15,064  | —                            | 12,908                           | 112,051           |
| <b>Comprehensive income</b>                                     |                              |                                   |                               |                                 |   |                              |                                  |                   |
| Profit for the year   | —                            | —                                 | —                             | —                               | —   | —                            | 684                              | 684               |
| Currency translation differences                                | —                            | —                                 | —                             | 4                               | —   | —                            | —                                | 4                 |
| <b>Total comprehensive income</b>                               | —                            | —                                 | —                             | 4                               | —   | —                            | 684                              | 688               |
| <b>Transactions with owners</b>                                 |                              |                                   |                               |                                 |   |                              |                                  |                   |
| 2008 final dividend paid, net<br>of portion for own shares held | —                            | —                                 | —                             | —                               | —   | —                            | (9,466)                          | (9,466)           |
| Shares issued from exercise<br>for share options                | 46                           | —                                 | —                             | —                               | —   | —                            | —                                | 46                |
| Equity compensation   | —                            | 600                               | —                             | —                               | 740   | —                            | (600)                            | 740               |
| Purchase of minority interest                                   | —                            | —                                 | —                             | —                               | —   | 230                          | —                                | 230               |
| <b>Total transactions with owners</b>                           | 46                           | 600                               | —                             | —                               | 740   | 230                          | (10,066)                         | (8,450)           |
| At 31 December 2009   | 82,855                       | (858)                             | 2,082                         | 650                             | 15,804  | 230                          | 3,526                            | 104,289           |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 27. Reserves (continued)

#### (b) Company

|  | Share premium<br>US\$'000 | Equity<br>compensation<br>reserve<br>US\$'000 | Retained<br>earnings<br>US\$'000 | Total<br>US\$'000 |
|--|---------------------------|---|----------------------------------|-------------------|
| At 1 January 2008                            | 108,423                   | 13,468  | 15,059                           | 136,950           |
| <b>Comprehensive income</b>                  |                           |   |                                  |                   |
| Profit for the year                          | —                         | —   | 3,623                            | 3,623             |
| <b>Transactions with owners</b>              |                           |   |                                  |                   |
| 2007 final dividends paid                    | —                         | —   | (6,286)                          | (6,286)           |
| Equity compensation                          | —                         | 1,596   | —                                | 1,596             |
| <b>Total transactions with owners</b>        | —                         | 1,596   | (6,286)                          | (4,690)           |
| At 31 December 2008                          | 108,423                   | 15,064  | 12,396                           | 135,883           |
| At 1 January 2009                            | <b>108,423</b>            | <b>15,064</b>                                 | <b>12,396</b>                    | <b>135,883</b>    |
| <b>Comprehensive income</b>                  |                           |   |                                  |                   |
| Profit for the year                          | —                         | —   | <b>3,853</b>                     | <b>3,853</b>      |
| <b>Transactions with owners</b>              |                           |   |                                  |                   |
| 2008 final dividend paid                     | —                         | —   | <b>(9,466)</b>                   | <b>(9,466)</b>    |
| Shares issued from exercise of share options | <b>46</b>                 | —   | —                                | <b>46</b>         |
| Equity compensation                          | —                         | <b>740</b>                                    | —                                | <b>740</b>        |
| <b>Total transactions with owners</b>        | <b>46</b>                 | <b>740</b>                                    | <b>(9,466)</b>                   | <b>(8,680)</b>    |
| At 31 December 2009                          | <b>108,469</b>            | <b>15,804</b>                                 | <b>6,783</b>                     | <b>131,056</b>    |

## 28. Obligations under finance leases – Group

|                                    | 2009<br>US\$'000 | 2008<br>US\$'000 |
|------------------------------------|------------------|------------------|
| Wholly repayable within five years | 13               | 9                |
| Current portion                    | (6)              | (6)              |
| Non-current portion                | 7                | 3                |

At 31 December 2009, the Group's finance lease liabilities were repayable as follows:

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Within one year                                 | 6                | 7                |
| In the second to fifth year                     | 8                | 3                |
| Future finance charges on finance leases        | 14<br>(1)        | 10<br>(1)        |
| Present value of finance lease liabilities      | 13               | 9                |
| The present value of finance lease liabilities: |                  |                  |
| – Within one year                               | 6                | 6                |
| – In the second to fifth year                   | 7                | 3                |
|   | 13               | 9                |

## 29. Deferred income tax

Deferred income tax is recognized using liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements using a principal tax rate of 16.5% (2008: 16.5%).

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

|  | Group            |                  | Company          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2009<br>US\$'000 | 2008<br>US\$'000 | 2009<br>US\$'000 | 2008<br>US\$'000 |
| At 1 January                               | 108              | 221              | 3                | 39               |
| Credited to the income statement (note 12) | (58)             | (113)            | (3)              | (36)             |
| At 31 December                             | 50               | 108              | —                | 3                |

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

|   | Group<br>Accelerated tax<br>depreciation<br>US\$'000 | Company<br>Accelerated tax<br>depreciation<br>US\$'000 |
|---|--|--|
| At 1 January 2008                       | 221  | 39   |
| Credited to the income statement        | (113)  | (36)   |
| At 31 December 2008                     | 108  | 3  |
| <b>Credited to the income statement</b> | <b>(58)</b>  | <b>(3)</b>   |
| <b>At 31 December 2009</b>              | <b>50</b>  | <b>—</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 30. Trade and other payables – Group

|                                      | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--------------------------------------|------------------|------------------|
| Trade payables                       | 9,283            | 7,553            |
| Accrued expenses and other payables  | 3,241            | 8,605            |
|                                      | <b>12,524</b>    | 16,158           |
| Other payables – non-current portion | <b>(133)</b>     | (265)            |
|                                      | <b>12,391</b>    | 15,893           |

At 31 December 2009, the ageing analysis of the trade payables is as follows:

|              | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--------------|------------------|------------------|
| Current      | 8,261            | 5,010            |
| 1 - 30 days  | 947              | 2,387            |
| 31 - 60 days | 19               | 146              |
| 61 - 90 days | 8                | 7                |
| Over 90 days | 48               | 3                |
|              | <b>9,283</b>     | 7,553            |

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

|                        | 2009<br>US\$'000 | 2008<br>US\$'000 |
|------------------------|------------------|------------------|
| US Dollar (USD)        | 10,290           | 11,471           |
| Hong Kong Dollar (HKD) | 1,530            | 1,683            |
| Japanese Yen (JPY)     | 17               | 1,002            |
| Other currencies       | 687              | 2,002            |
|                        | <b>12,524</b>    | 16,158           |

### 31. Bank loan – Group

At 31 December 2009, The Group had a bank borrowing of US\$794,000 in connection with a mortgaged office property in Hsinchu, Taiwan acquired in late 2008. The bank borrowing matures by 14 January 2019 and bears an interest rate of long-term funding determined by the Council of Economic Planning and Development of Taiwan Government plus 0.41%.

The fair value of the bank borrowing approximates its carrying amount as it is subject to a floating rate and is wholly denominated in Taiwan dollars.

### 32. Banking facilities - Group

At 31 December 2009, the unused banking facilities of the Group amounted to US\$17,591,000 (2008: US\$17,591,000).

### 33. Cash generated from operations – Group

#### (a) Reconciliation of loss before income tax to cash generated from operations

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Loss before income tax  | (531)            | (23,681)         |
| Depreciation of property, plant and equipment (note 17)                                 | 2,765            | 5,299            |
| Share of results of associated companies (note 18)                                      | 791              | 432              |
| Finance costs   | 15               | 1                |
| Equity compensation   | 740              | 1,596            |
| Provision for impairment loss of available-for-sale financial assets                    | —                | 2,151            |
| Gain on disposal of an available-for-sale financial asset                               | (95)             | —                |
| Provision for impairment loss of investment in associated companies                     | 1,067            | 1,555            |
| Provision for impairment loss of goodwill   | —                | 931              |
| (Gain)/loss on disposal of property, plant and equipment (note 33(b))                   | (9)              | 1                |
| Gain on disposal of financial assets at fair value through profit or loss               | (1,017)          | (2)              |
| Fair value (increase)/decrease in financial assets at fair value through profit or loss | (3,412)          | 5,116            |
| Interest income   | (2,104)          | (4,603)          |
|   | (1,790)          | (11,204)         |
| (Increase)/decrease in trade and other receivables                                      | (1,471)          | 16,711           |
| (Increase)/decrease in inventories  | (3,564)          | 8,553            |
| Decrease in trade and other payables  | (3,132)          | (10,396)         |
| Cash (used in)/generated from operations  | (9,957)          | 3,664            |

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

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Net book amount (note 17)   | 2                | 5                |
| Gain/(loss) on disposal of property, plant and equipment (note 9) | 9                | (1)              |
| Proceeds from disposal of property, plant and equipment           | 11               | 4                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 34. Commitments – Group

#### (a) Capital commitments

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

|  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--|------------------|------------------|
| Approved but not contracted for <sup>(i)</sup> | 1,541            | 688              |
| Contracted but not provided for                | —                | —                |

- (i) As at 31 December 2009, there was US\$1.5 million capital expenditure approved but not contracted for in respect of certain manufacturing equipment for the Group's manufacturing subsidiary in Dongguan, China. Saved as aforesaid, the Group had no other material capital commitment or contingent liability.

#### (b) Operating lease commitments – the Group as lessee

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

|  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--|------------------|------------------|
| Not later than 1 year                        | 1,145            | 782              |
| Later than 1 year and not later than 5 years | 1,642            | 530              |
| Later than 5 years                           | 82               | 161              |
|  | 2,869            | 1,473            |

### 35. Event after the balance sheet date

Advanced Photoelectronic Technology Limited ("APT"), one of the associated companies that the Group held 20.6% as at 31 December 2009 has undergone an reorganization in early 2010. New shares were issued to new strategic investors. The deal was completed on 17 March 2010 and the Group's holding was diluted from 20.6% to 10.3%. APT will no longer be accounted for under equity method of accounting effective March 2010 as the Group no longer has any significant influence over APT.

### 36. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors on 20 April 2010.

## FIVE-YEAR FINANCIAL SUMMARY

| <b>US\$ million</b>                       | <b>2009</b>   | 2008   | 2007   | 2006   | 2005   |
|---|---------------|--------|--------|--------|--------|
| Sales                                     | <b>61.8</b>   | 92.8   | 165.0  | 254.1  | 394.1  |
| Gross profit                              | <b>20.4</b>   | 16.9   | 39.5   | 59.3   | 119.6  |
| Net profit/(loss)                         | <b>0.7</b>    | (23.4) | 10.2   | 22.4   | 76.3   |
| <b>Assets and liabilities</b>             |               |        |        |        |        |
| – Total assets                            | <b>150.2</b>  | 162.3  | 202.4  | 221.1  | 270.3  |
| – Total liabilities                       | <b>(14.4)</b> | (18.5) | (30.3) | (41.2) | (63.3) |
| – Shareholders' funds                     | <b>135.8</b>  | 143.8  | 172.1  | 179.9  | 207.0  |
| <b>Earnings/(loss) per share</b>          |               |        |        |        |        |
| – Basic <sup>(i)</sup> (US cents)         | <b>0.03</b>   | (0.97) | 0.42   | 0.91   | 3.12   |
| – Diluted <sup>(ii)</sup> (US cents)      | <b>0.03</b>   | (0.96) | 0.41   | 0.90   | 3.08   |
| Dividends per share (US cents)            | <b>0.13</b>   | 0.39   | 0.39   | 0.77   | 2.44   |
| Net asset per share <sup>(i)</sup> (US\$) | <b>5.59</b>   | 5.95   | 7.02   | 7.29   | 8.47   |

(i) The basic earnings/(loss) and net assets per share are based on the weighted average of 2,445,135,773, 2,467,035,647, 2,453,274,184, 2,416,930,170 and 2,429,743,177 ordinary shares in issue excluding own shares held during each of the years ended 31 December 2005, 2006, 2007, 2008 and 2009 respectively.

(ii) For 2005, 2006, 2007, 2008 and 2009, the diluted earnings/(loss) per share information is based on 2,473,217,108, 2,491,931,274, 2,476,967,789, 2,437,669,973 and 2,457,281,028 ordinary shares respectively, which are 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.

# CORPORATE AND SHAREHOLDER INFORMATION

## Financial Calendar

|                                  |                 |
|----------------------------------|-----------------|
| Financial Year End               | 31 December     |
| Interim Results Announced        | 18 August 2009  |
| Annual Results Announced         | 20 April 2010   |
| Closure of Register of Members   | 3 – 9 June 2010 |
| Annual General Meeting           | 9 June 2010     |
| Proposed Final Dividend Pay Date | 18 June 2010    |

## Share Listing

|                  |   |
|------------------|---|
| Listing Venue    | Main Board of<br>The Stock Exchange of<br>Hong Kong Limited |
| Listing Date     | 8 April 2004  |
| Stock Code       | 2878  |
| Board Lot        | 2,000 shares  |
| Trading Currency | HKD   |
| Issued Shares    | 2,447,302,351<br>(as at 31 December 2009)                   |

## Share Registrars

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## Independent Auditor

PricewaterhouseCoopers

## Solicitors

Richards Butler

This 2009 Annual Report ("Annual Report") (in both English and Chinese versions) has been posted on the Company's website at [www.solomon-systech.com](http://www.solomon-systech.com).

Shareholders who have chosen to receive the Company's Corporate Communications (including but not limited to annual report, summary financial report (where applicable), interim report, summary interim report (where applicable), notice of meeting, listing document, circular and proxy form) via the Company's website and for any reason have difficulty in gaining access to the Annual Report posted on the Company's website will promptly upon request be sent by post the Annual Report in printed form free of charge.

Shareholders who have chosen to receive the Company's Corporate Communications in either English or Chinese version may request for the other language version of the Annual Report.

### **Shareholders may at any time change their choice of means of receipt and language of the Corporate Communications.**

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## Website

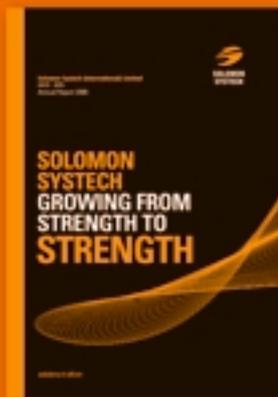
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2004 Annual Report



Best of Hong Kong,  
2005 International ARC Awards

2005 Annual Report



Annual Report Printing Champion,  
The 18th Hong Kong Print Awards  
Gold Winner,  
2006 International ARC Awards

2006 Annual Report



Gold Winner,  
2007 International ARC Awards  
Gold Winner,  
2007 Galaxy Awards

2007 Annual Report



2008 Annual Report



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