SOLOMON
SYSTECH

SOLOMON SYSTECH Interim Report 2009

Solomon Systech (International) Limited

solutions in silicon

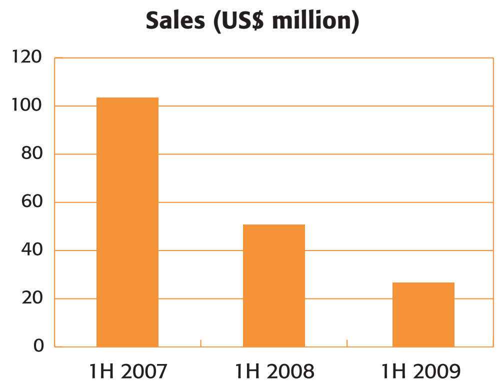
Contents

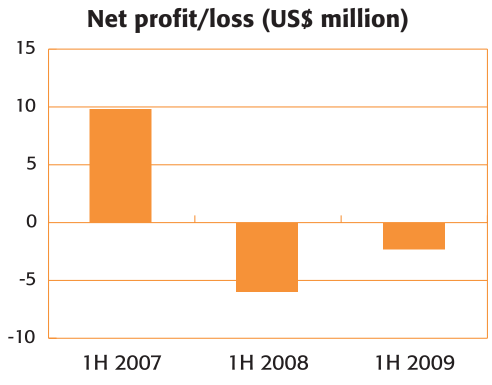
This Interim Report is printed on environmental friendly paper.

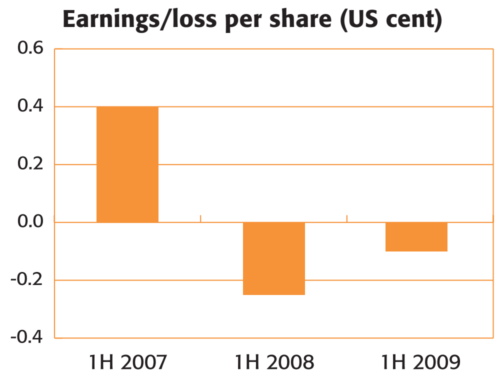
Highlights

	Unaudited For the six months ended 30 June		
	2009	2008	Change
(US$ million)			
Sales	**26.7**	50.8	-47%
Gross profit	**7.4**	11.0	-33%
Net loss	**2.3**	6.0	
(US cent)			
Loss per share	**0.10**	0.25	
Dividend per share	**—**	—	
Book to bill ratio	**1.07**	0.90	
	Unaudited 30 June 2009	Audited 31 December 2008	Change
(US$ million)			
Total assets	**146.5**	162.3	-10%
Shareholders' funds	**132.5**	143.8	-8%

- Sales amounted to US$26.7 million
- Net loss attributable to the equity holders of the Company was US$2.3 million
- Basic loss per share was 0.10 US cent (0.75 HK cent)
- Book to bill ratio for the period ended 30 June 2009 was 1.07







Note:

(i) Earnings/loss per share calculation is based on the weighted average number of shares for the period.
(ii) Dividend per share calculation is based on the number of outstanding shares at the period end.
(iii) All the numbers presented in the charts are unaudited.

Interim Dividend

The directors (the "Directors") of Solomon Systech (International) Limited (the "Company") did not declare the payment of interim dividend for the period ended 30 June 2009.

Interim Results

The Directors are pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2009 together with the comparative figures for the corresponding period as follows.

Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2009

		Unaudited For the six months ended 30 June	
	Note	**2009 US$'000**	2008 US$'000
Sales	6	**26,663**	50,774
Cost of sales		**(19,218)**	(39,761)
Gross profit		**7,445**	11,013
Other income	7	**852**	306
Other gain/(loss) - net	8	**1,415**	(1,360)
Research and development costs		**(6,866)**	(9,206)
Selling and distribution expenses		**(1,582)**	(1,790)
Administrative expenses		**(4,743)**	(6,260)
Other operating expenses		**(1,105)**	(1,094)
Operating loss	9	**(4,584)**	(8,391)
Interest income		**1,388**	2,565
Finance costs		**–**	(1)
Share of results of associated companies		**(390)**	(173)
Loss before income tax		**(3,586)**	(6,000)
Income taxes	10	**1,256**	38
Loss for the period		**(2,330)**	(5,962)
Attributable to:			
– The equity holders of the Company		**(2,331)**	(5,957)
– Minority interest		**1**	(5)
		(2,330)	(5,962)
Dividends	11	**–**	–
Loss per share for loss attributable to the equity holders of the Company: (expressed in US cent per share)	12		
– Basic		**(0.10)**	(0.25)
– Diluted		**(0.10)**	(0.24)

The notes on pages 8 to 23 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2009

	Unaudited For the six months ended 30 June	
	2009 **US$'000**	2008 US$'000
Loss for the period	**(2,330)**	(5,962)
Other comprehensive loss for the period:		
– Currency translation differences	**44**	267
Total comprehensive loss for the period	**(2,286)**	(5,695)
Attributable to:		
– The equity holders of the Company	**(2,287)**	(5,690)
– Minority interest	**1**	(5)
	(2,286)	(5,695)

The notes on pages 8 to 23 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Balance Sheet

As at 30 June 2009

	Note	Unaudited 30 June 2009 US$'000	Audited 31 December 2008 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**7,099**	8,859
Investments in associated companies	13	**4,893**	5,661
Available-for-sale financial assets	14	**2,535**	2,535
		14,527	17,055
Current assets			
Inventories		**5,159**	6,738
Trade and other receivables	15	**14,200**	11,920
Financial assets at fair value through profit or loss		**19,377**	15,634
Other financial assets		**983**	4,167
Pledged bank deposits		**130**	130
Short-term fixed deposits		**59,551**	46,897
Cash and cash equivalents		**32,596**	59,801
		131,996	145,287
Total assets		**146,523**	162,342
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	16	**31,516**	31,516
Reserves			
Proposed dividend		**–**	9,466
Own shares held		**(896)**	(1,458)
Others		**101,613**	104,043
		132,233	143,567
Minority interest in equity		**230**	229
Total equity		**132,463**	143,796
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		**10**	3
Other payables	17	**133**	265
Bank loan		**728**	–
Deferred tax liabilities		**10**	108
		881	376
Current liabilities			
Trade and other payables	17	**11,619**	15,893
Bank loan		**84**	–
Current income tax liabilities		**1,469**	2,271
Obligations under finance leases		**7**	6
		13,179	18,170
Total liabilities		**14,060**	18,546
Total equity and liabilities		**146,523**	162,342
Net current assets		**118,817**	127,117
Total assets less current liabilities		**133,344**	144,172

The notes on pages 8 to 23 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2009

	Unaudited									
	Attributable to the equity holders of the Company									
	Share capital US$'000	Share premium US$'000	Own shares held US$'000	Merger reserve US$'000	Exchange reserve US$'000	Equity compensation reserve US$'000	Retained earnings US$'000	Total US$'000	Minority interest US$'000	Total equity US$'000
At 1 January 2008	31,516	82,809	(963)	2,082	201	13,468	42,778	171,891	219	172,110
Dividend paid, net of portion for own shares held	–	–	–	–	–	–	(6,286)	(6,286)	–	(6,286)
Shares purchased for Share Award Scheme	–	–	(671)	–	–	–	–	(671)	–	(671)
Total comprehensive loss for the period	–	–	–	–	267	–	(5,957)	(5,690)	(5)	(5,695)
Equity compensation	–	–	157	–	–	1,139	(157)	1,139	–	1,139
At 30 June 2008	31,516	82,809	(1,477)	2,082	468	14,607	30,378	160,383	214	160,597
At 1 January 2009	**31,516**	**82,809**	**(1,458)**	**2,082**	**646**	**15,064**	**12,908**	**143,567**	**229**	**143,796**
Dividend paid, net of portion for own shares held	**–**	**–**	**–**	**–**	**–**	**–**	**(9,466)**	**(9,466)**	**–**	**(9,466)**
Total comprehensive loss for the period	**–**	**–**	**–**	**–**	**44**	**–**	**(2,331)**	**(2,287)**	**1**	**(2,286)**
Equity compensation	**–**	**–**	**562**	**–**	**–**	**419**	**(562)**	**419**	**–**	**419**
At 30 June 2009	**31,516**	**82,809**	**(896)**	**2,082**	**690**	**15,483**	**549**	**132,233**	**230**	**132,463**

The notes on pages 8 to 23 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2009

	Unaudited For the six months ended 30 June	
	2009 **US$'000**	2008 US$'000
Net cash used in operating activities	**(7,709)**	(4,673)
Net cash used in investing activities	**(10,972)**	(56,343)
Net cash used in financing activities	**(8,646)**	(6,961)
Net decrease in cash and cash equivalents	**(27,327)**	(67,977)
Exchange gain/(loss) on cash and cash equivalents	**122**	(94)
Cash and cash equivalents at 1 January	**59,801**	124,069
Cash and cash equivalents at 30 June	**32,596**	55,998
Analysis of balances of cash and cash equivalents:		
– Bank balances and cash	**32,596**	55,998

The notes on pages 8 to 23 form an integral part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim 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 integrated circuits ("IC") products and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs, consumer electronic products, industrial appliances and 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 condensed consolidated interim financial statements ("Interim Financial Statements") are presented in thousand US dollar (US$'000), unless otherwise stated. These unaudited Interim Financial Statements have been approved for issue by the Board of Directors (the "Board") on 18 August 2009.

2. Basis of preparation

These unaudited Interim Financial Statements for the six months ended 30 June 2009 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These unaudited Interim Financial Statements should be read in conjunction with the Company's annual report for the year ended 31 December 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Certain comparative figures have been reclassified to conform to the current period's presentation. These reclassifications have no effect on the Group's consolidated financial position as at both 30 June 2009 and 31 December 2008, or the Group's consolidated profit/loss or cash flow for the periods ended 30 June 2009 and 2008.

3. Accounting policies

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Except as described below, the accounting policies applied during the period are consistent with those of the annual consolidated financial statements for the year ended 31 December 2008, as described in those annual financial statements.

3.1 Standards, amendments and interpretations effective in 2009

The following new standards, amendments and interpretations to existing standards ("new HKFRSs") are mandatory for the first time for the financial year beginning 1 January 2009:

• HKAS 1 (Revised)	Presentation of financial statements
• HKAS 23 (Revised)	Borrowing costs
• HKAS 32 (Amendment)	Financial instruments: Presentation
• HKAS 39 (Amendment)	Financial instruments: Recognition and measurement
• HKFRS 1 (Amendment) and HKAS 27	First time adoption of HKFRS and Consolidated and separate financial statements
• HKFRS 2 (Amendment)	Share-based payment
• HKFRS 7	Financial instruments: disclosures
• HKFRS 8	Operating segments
• HK(IFRIC) - Int 9 (Amendment) and HKAS 39 (Amendment)	Reassessment of embedded derivatives and Financial instruments: Recognition and measurement
• HK(IFRIC) - Int 13	Customer loyalty programmes
• HK(IFRIC) - Int 15	Agreements for the construction of real estates
• HK(IFRIC) - Int 16	Hedges of a net investment in a foreign operation

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. All non-owner changes in equity are required to be shown in a performance statement.

The Group has elected to present two statements: an income statement and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

HKFRS 7 - Financial instruments: disclosures

The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group will make additional relevant disclosures in its financial statements for the year ending 31 December 2009.

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

3. Accounting policies (continued)

3.2 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, amendments and interpretations to existing standards have been issued, but not yet effective for the financial year beginning 1 January 2009 and have not been early adopted:

• HKAS 27 (Revised)	Consolidated and separate financial statements
• HKAS 39 (Amendment)	Financial instruments: Recognition and measurement - Eligible hedged items
• HKFRS 3 (Revised)	Business combinations
• HK(IFRIC) - Int 17	Distributions of non-cash assets to owners
• HK(IFRIC) - Int 18	Transfers of assets from customers

Improvements to the following HKFRSs from the HKICPA published in May 2009:

• HKAS 1 (Amendment)	Presentation of financial statements
• HKAS 7 (Amendment)	Cash flow statements
• HKAS 17 (Amendment)	Leases
• HKAS 36 (Amendment)	Impairment of assets
• HKAS 38 (Amendment)	Intangible assets
• HKAS 39 (Amendment)	Financial instrument: recognition and measurement
• HKFRS 2 (Amendment)	Share-based payments
• HKFRS 5 (Amendment)	Non-current assets held for sale and discontinued operations
• HKFRS 8 (Amendment)	Operating segments
• HK(IFRIC) - Int 9	Reassessment of embedded derivatives
• HK(IFRIC) - Int 16 (Amendment)	Hedges of a net investment in a foreign operation

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

4. Financial risk management

4.1 Financial risk factors

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.

(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 and other Asian currencies such as Chinese Yuan ("CNY"), Japanese Yen ("JPY"), Singapore Dollar ("SGD") and New Taiwan Dollar ("NTD"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Majority of the revenue and cost of sales of the Group are US dollar based. Majority of the assets and liabilities are in US dollar. Foreign exchange risk may arise in the area of operating expenses.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the condensed consolidated interim 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 equity financial instruments, the Group diversifies its portfolio or invests only on high turnover blue chips with good dividend yield.

(b) Credit risk

Customers of the Group are mainly well-known distributors and module makers 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.

(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.

(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 profits or loss ("FVTPL"), the Group has no significant interest bearing assets or liabilities. 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.

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

4. Financial risk management (continued)

4.2 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 the period, the Group has no material borrowing. The reduction in shareholders' funds is mainly due to the payment of the final dividend for the year ended 31 December 2008 and the loss for the period.

4.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded financial assets) is based on quoted closing market prices at the balance sheet date.

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.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

5. Critical accounting estimates and judgments

Estimates and judgments 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.

5.1 Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes 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.

5.2 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.

5.3 Property, plant and equipment and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives are different from previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5.4 Fair value of other financial instruments

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.

6. Segment information

During the period, the Group is principally engaged in the design, development and sales of proprietary IC 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 business segment, i.e. the design, development and sales of proprietary IC and system solutions.

The chief operating decision-maker has been identified as the Executive Directors led by the Group CEO (Managing Director). The Executive Directors review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segment based on these reports.

Sales amounted to US$26,663,000 and US$50,774,000 for the periods ended 30 June 2009 and 2008 respectively.

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

Sales

	Unaudited For the six months ended 30 June	
	2009 US$'000	2008 US$'000
Hong Kong	**10,725**	34,370
China	**7,027**	3,581
Taiwan	**4,365**	6,525
Korea	**1,846**	516
South East Asia	**822**	1,888
Japan	**484**	2,670
United States of America ("USA")	**91**	259
Others	**1,303**	965
	26,663	50,774

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

6. Segment information (continued)

Total assets

	Unaudited 30 June 2009 US$'000	Audited 31 December 2008 US$'000
Hong Kong	**135,790**	146,776
Taiwan	**5,683**	7,413
Others	**5,050**	8,153
	146,523	162,342

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

Capital expenditures

	Unaudited For the six months ended 30 June			
	Property, plant and equipment		**Investments in associated companies**	
	2009 US$'000	2008 US$'000	**2009 US$'000**	2008 US$'000
Hong Kong	**49**	849	**–**	–
China	**100**	201	**690**	857
Taiwan	**23**	847	**–**	–
South East Asia	**30**	388	**–**	–
	202	2,285	**690**	857

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

7. Other income

	Unaudited For the six months ended 30 June	
	2009 US$'000	2008 US$'000
Gain on disposal of financial assets at fair value through profit or loss	**719**	2
Dividend income	**85**	56
Government grant	**43**	227
Others	**5**	21
	852	306

8. Other gain/(loss) - net

	Unaudited For the six months ended 30 June	
	2009 US$'000	2008 US$'000
Financial assets at fair value through profit or loss:		
– Fair value gain	**1,445**	240
– Fair value loss	**(30)**	(1,606)
Other financial assets	**–**	(17)
Derivative financial instruments - fair value gain	**–**	23
	1,415	(1,360)

9. Expenses by nature

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

	Unaudited For the six months ended 30 June	
	2009 US$'000	2008 US$'000
Depreciation of owned property, plant and equipment	**1,883**	2,792
Depreciation of leased property, plant and equipment	**1**	7
Operating leases for land and buildings	**590**	642
Director and employee benefits expenses:		
– Equity compensation	**419**	1,139
– Non-equity compensation	**8,163**	9,631
Net exchange loss/(gain)	**25**	(161)
Provision for impairment loss of an available-for-sale financial asset	**–**	1,076
Provision for impairment loss of investment in an associated company	**1,068**	–
Provision for impairment of receivables	**–**	7
(Write-back of provision)/provision for obsolete or slow moving inventories	**(2,664)**	1,326

10. Income taxes

No provision for Hong Kong and overseas income taxes has been made as the Group has no estimated assessable profits for the period.

	Unaudited For the six months ended 30 June	
	2009	2008
	US$'000	US$'000
Current income taxes:		
– Hong Kong	**–**	–
– Overseas	**(2)**	(3)
(Over)/under provisions in prior years	**(1,156)**	5
Deferred income taxes	**(98)**	(40)
	(1,256)	(38)

Note:

(i) Hong Kong income tax rate for 2009 is 16.5% (2008: 16.5%)

(ii) The reversal of the over-provisions in prior years is related to the receipt of notices of revised tax assessment in July 2009 for the years 2005, 2006 and 2007 from Hong Kong Inland Revenue Department to Solomon Systech Limited, the wholly-owned operating subsidiary of the Group, in connection with the equity compensation expenses.

11. Dividends

	Unaudited For the six months ended 30 June	
	2009	2008
	US$'000	US$'000
Dividends attributable to the previous year, approved and paid during the period:		
– 2008 final dividend, paid, of HK$0.03 (approximately 0.39 US cent) per ordinary share[i]	**9,466**	–
– 2007 final dividend, paid, of HK$0.02 (approximately 0.26 US cent) per ordinary share	**–**	6,286
	9,466	6,286

Note:

(i) At a meeting held on 25 March 2009, the Directors proposed a final dividend of HK$0.03 (approximately 0.39 US cent) per ordinary share. The final dividend was paid on 20 May 2009.

12. Loss per share

The calculation of basic and diluted loss per share is based on the Group's loss attributable to the equity holders of the Company of US$2,331,000 (2008 loss: US$5,957,000).

The basic loss per share is based on the weighted average number of 2,442,928,853 (2008: 2,412,217,765) ordinary shares in issue excluding own shares held during the period.

Diluted loss per share is based on 2,445,001,025 (2008: 2,432,154,507) ordinary shares which is the adjusted weighted average number of ordinary shares outstanding assuming the conversion of all share options outstanding but excluding unallocated own shares held during the period. 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.

	Unaudited For the six months ended 30 June	
	2009	2008
Weighted average number of ordinary shares in issue	**2,422,928,853**	2,412,217,765
Adjustments for:		
– allocated own shares held under Share Award Scheme	**21,361,288**	19,936,742
– share options	**710,884**	–
Weighted average number of ordinary shares for diluted loss per share calculation	**2,445,001,025**	2,432,154,507

13. Investments in associated companies

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 liabilities 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. PRC government approval for the transformation to a Sino-foreign joint venture was obtained and cash injection was made on 24 April 2009.

The share of post-acquisition loss for the period was US$9,000. The details of the net assets acquired as of the date of acquisition during the period are as follows:

		Unaudited
	Fair value	**Carrying amount in the books of the associated company**
	US$'000	**US$'000**
Cash and cash equivalents	1,050	1,050
Intangible assets	313	1,175
Property, plant and equipment	16	16
Inventories	153	153
Trade and other receivables	37	37
Trade and other payables	(101)	(101)
Net assets	1,468	2,330
Fair value of net assets acquired	690	
Purchase consideration settled in cash	(690)	
Goodwill	–	

14. Available-for-sale financial assets

	Unaudited 30 June 2009 US$'000	Audited 31 December 2008 US$'000
Unlisted shares, at cost	**6,337**	6,337
Less: Provision for impairment loss	**(3,802)**	(3,802)
	2,535	2,535

There was no addition nor disposal of available-for-sale financial assets during the six months ended 30 June 2009. All the available-for-sale financial assets are unlisted equity securities.

15. Trade and other receivables

	Unaudited 30 June 2009 US$'000	Audited 31 December 2008 US$'000
Trade receivables	**11,757**	8,971
Less: provision for impairment of receivables	**(60)**	(60)
Trade receivables - net	**11,697**	8,911
Prepayments and other receivables	**2,503**	3,009
	14,200	11,920

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

	Unaudited 30 June 2009 US$'000	Audited 31 December 2008 US$'000
Current	**8,415**	2,188
1 - 30 days	**2,762**	2,530
31 - 60 days	**414**	1,407
61 - 90 days	**18**	861
91 - 180 days	**88**	1,925
	3,282	6,723
	11,697	8,911

As of 30 June 2009, trade receivables of US$3,282,000 (31 December 2008: US$6,723,000) were considered past due if measured strictly against the credit terms offered. The overdue sum is not impaired since these are related to a number of independent customers for whom there is no recent history of default.

16. Share capital

	Unaudited 2009 Number of shares	Unaudited 2009 US$'000	Audited 2008 Number of shares	Audited 2008 US$'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 2008, 31 December 2008 and 30 June 2009	**2,445,302,351**	**31,516**	2,445,302,351	31,516

17. Trade and other payables

	Unaudited 30 June 2009 US$'000	Audited 31 December 2008 US$'000
Trade payables	**7,793**	7,553
Accrued expenses and other payables	**3,959**	8,605
	11,752	16,158
Other payables - non-current portion	**(133)**	(265)
	11,619	15,893

The ageing analysis of trade payables is as follows:

	Unaudited 30 June 2009 US$'000	Audited 31 December 2008 US$'000
Current	**7,469**	5,010
1 - 30 days	**265**	2,387
31 - 60 days	**19**	146
61 - 90 days	**5**	7
Over 90 days	**35**	3
	7,793	7,553

18. Equity compensation scheme

The Share Option Scheme

The Company adopted the Share Option Scheme at an extraordinary general 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 the 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, incentivising, 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 Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

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

		Unaudited Movement during the period Number of share options (in thousand unit)				
Grant date	**Exercise price in HK$ per share**	**Held at 1 January 2009**	**Lapsed**	**Forfeited**	**Held at 30 June 2009**	**Expiry date**
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**	**–**	**–**	**11,000**	30 June 2011
		26,770	**(5,500)**	**(150)**	**21,120**	

During the period, 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 whilst no option under the Share Option Scheme has been granted or exercised.

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.

18. Equity compensation scheme (continued)

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 (the "Trustee") 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. As at 30 June 2009, the number of shares allocated but remained unvested under the Trustee for directors and employees of the Group was 9,678,000 while the total number of shares held by the Trustee was 10,813,520 leaving a balance of 1,135,520 shares for future grant to directors and employees in the rest of 2009 and beyond.

Shares held by the Trustee under the Share Award Plan are listed below:

	Unaudited Number of shares	
	2009	2008
At 1 January	**22,507,520**	27,555,520
Shares purchased from market	**–**	8,632,000
Shares vested during the period	**(11,694,000)**	(12,208,000)
At 30 June	**10,813,520**	23,979,520

On 14 July 2009, 1,800,000 shares were provisionally awarded to 48 employees of the Group pursuant to Share Award Plan. Subject to the vesting conditions, 40% of the awarded shares shall vest in the awardees on 30 June 2010 and 60% of the awarded shares shall vest in the awardees on 30 June 2011.

19. Operating lease commitments

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

	Unaudited 30 June 2009 US$'000	Audited 31 December 2008 US$'000
No later than 1 year	**933**	782
Later than 1 year and no later than 5 years	**1,905**	530
Later than 5 years	**42**	161
	2,880	1,473

20. Subsequent event

In early August 2009, the Group acquired the remaining 18.36% interest of WE3 Technology Company Limited ("WE3") at a consideration of US$5,500 and consequently WE3 became a wholly-owned subsidiary of the Group.

Report on Review of Interim Financial Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
33/F, Cheung Kong Center
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Hong Kong

TO THE BOARD OF DIRECTORS OF
SOLOMON SYSTECH (INTERNATIONAL) LIMITED
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 3 to 23, which comprises the condensed consolidated balance sheet of Solomon Systech (International) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2009 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial report in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 August 2009

Management Discussion and Analysis

Financial Review

An Overview

For the six months ended 30 June 2009, the Group's sales was US$26.7 million (1H 2008: US$50.8 million). The decline was mainly due to (1) demand weakened by global market recession; (2) erosion of average selling price ("ASP") and change of product mix, and (3) long market development time required for the Group's new businesses. The Group recorded a 33% decline year-on-year in shipment quantity and a 21% year-on-year drop in the blended ASP of its products. For 1H 2009, gross profit was US$7.4 million, down by US$3.6 million compared with 1H 2008 because of smaller shipment quantity and drop in blended ASP. The Group's gross margin was 28%, a net increase of 6% year-on-year, which was mainly contributed by the selling off of US$1.2 million worth of obsolete inventory of which full provisions were made in the previous year. With close monitoring on inventory, inventory scrap was minimal in 1H 2009.

In the review period, the Group implemented an array of expense control and belt tightening measures including headcount reduction, no-pay-leave, zero performance bonus, temporary reduction in 2009 of the 13th month year-end payment and voluntary provident fund contribution plus other cuts in fringe benefits. Total expenses (including Research & Development, Selling & Distribution, Administrative) were down by US$4.1 million, representing a cut of 24%, approximately half was believed to have contributed by the temporary measures. Selling & Distribution expenses as well as Administrative expenses were reduced by 12% and 24% respectively. The Group continued to expend on R&D and business development, but was more selective on R&D spending. R&D expenses will have moderate increase in 2H 2009 with new products in the pipeline expected to be released for production.

During the period, the Group recognized a gain of US$0.8 million from financial assets at fair value through profit or loss ("FVTPL") and interest income of US$1.4 million. Furthermore, an unrealized gain of US$1.4 million was recorded from the investment in FVTPL portfolio as at 30 June 2009.

Notices of Revised Tax Assessment for the years 2005, 2006 and 2007 were received from Hong Kong Inland Revenue Department in July 2009 confirming the tax treatment on the equity compensation of Solomon Systech Limited, the wholly-owned operating subsidiary of the Group. A total tax credit of US$1.2 million was recognized.

Notwithstanding the total contribution of US$3.6 million from interest income and FVTPL and also the tax credit of US$1.2 million, the Group recorded net loss attributable to the Company's equity holders of US$2.3 million as a result of low sales volume and poor contribution from gross profit and a provision for impairment of an investment in associated company.

No interim dividend for the six months ended 30 June 2009 was declared by the Board.

Liquidity and Financial Resources

The Group incurred total operating loss of US$4.6 million of which US$5.7 million was operating loss from the lower sales and gross profit of the IC business and US$1.1 million on provision of impairment loss of investment in an associated company while there were realized and unrealized gain of US$0.8 million and US$1.4 million respectively from FVTPL. Total cash and bank deposits or equivalents (including other financial assets) of the Group amounted to US$93 million at period-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 operation amounted to US$8 million because of net increase in working capital; (2) dividend paid of US$9.5 million; (3) net increase of US$2.3 million in FVTPL, and (4) investment in an associated company in the amount of US$0.7 million. Regarding use of the cash reserves, the Group will continue to invest in product development, securing production capacity, strategic corporate venture investment as well as general corporate purposes. As at 30 June 2009, the Group had no major borrowings other than the US$0.8 million mortgaged bank loan for the new 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 payables are quoted in US dollar. The Group closely monitors foreign exchange rates and constantly seeks to obtain favorable exchange rates for conversion of US dollar into other currencies for paying local operating expenses. During the review period, the Group did not use any derivative instruments to hedge against foreign currency exposure as the Directors considered this exposure to be insignificant.

Capital Expenditure and Contingent Liabilities

In 1H 2009, the Group did not make any major capital spending other than investing US$0.7 million on a strategic corporate venture.

As at 30 June 2009, the Group had no material capital commitment or contingent liability.

Business Review

Book to Bill Ratio and Backlog

In the review period, the book to bill ratio stood at 1.07 (1H 2008: 0.90), showing potential improvement in 2H 2009. As at 30 June 2009, the Group registered a backlog of orders at around 22 million units for 2H 2009.

Product Shipment

In the review period, the Group has shipped a total 40.5 million units of display ICs and system solutions, down by 33% year-on-year. The shipment of STN display ICs and mobile TFT ("m-TFT") display ICs decreased as the overall consumer electronics market weakened. OLED display ICs shipment moderately increased by 10% year-on-year to 11.8 million units. The OLED display market was more or less stabilized with the OLED display technology finding its way into various new applications. The shipment of new display ICs increased by 15% to 3.8 million units as demand in electronic shelf label ("ESL") application started to pick up. In the first half year, the Group also shipped over 1 million units of graphic controllers, multimedia processors and Mobile Industry Processor Interface ("MIPI") chipsets under the Display System Solution business, and the Green Power business started a small pilot run quantity shipment of LED lighting solution. The shipment breakdown by product type is as follows:

Units Shipped (million)	1H 2009	1H 2008	Change	2008
Mobile Display	23.8	46.7	-49%	81.1
OLED Display	11.8	10.7	10%	24.6
New Display	3.8	3.3	15%	7.8
Display System Solution	1.1	0.2	450%	0.8
Green Power	0	0	—	0
Miscellaneous	0	0	—	0.4
Total	**40.5**	**60.9**	**-33%**	**114.7**

Going into 2H 2009, the Group will concentrate on developing projects with strategic alliances, providing dedicated services, launching new and comprehensive products and solutions to customers so as to defend its market position and prepare for long-term growth.

Business Relationships

To enhance business development and customer relations, the Group has strategically focused resources on developing several key customer accounts since 2008. The initiative has led to the landing of several major projects in new market applications such as audio video ("AV") products, personal navigation device ("PND"), mobile digital TV ("MDTV"), mini-projector, ESL and LED street lamp. The Group will continue to support these strategic accounts targeting to open more business opportunities.

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

For the Display IC businesses, the Group currently serves most of the major display module makers in the world. The Group continues to focus on approaching both display module makers and end-product manufacturers directly to ensure it delivers the most appropriate product solutions and value-added services to them. During the period, the Group strengthened relationship with leading customers and top-tier end-product manufacturers from China, Europe, Japan, Korea and Taiwan.

Regarding the System Solution businesses, the Group provides customers with total system solutions that support specific multimedia applications and also the emerging green power market such as LED lighting (indoor and outdoor) and LED display. Aligning with independent design houses and lighting system design houses, the Group offers timely and total system solutions to original design manufacturers. During the review period, it launched the second multimedia processor in the MagusCore™ family for cost performance solutions. Various LED lighting solutions were also introduced during the period. With an enlarged solutions offering, the Group was able to broaden its customer base for the emerging market applications. The leading technology in system solutions of the Group has also reinforced its business relationships with existing customers and attracted new key customers.

Research and Development

In the past six months, research and development costs were approximately US$6.9 million. To support business transformation and stay competitive in the marketplace, the Group continues to enhance the features of existing products and develop new product technologies and product lines including multi-touch panel intellectual property ("IP") and dynamic backlight control; new generation MIPI/Mobile Display Digital Interface ("MDDI") ICs; total display system solutions for MDTV comprising hardware, software and firmware; dual SIM/dual operation GSM/GRPS mobile technology for mobile phones; LED driver ICs, power supply modules and LED lighting system design for energy-saving lighting.

In 1H 2009, the Group had 4 patent filed with and five patent granted by the United States Patent and Trademark Office.

As at 30 June 2009, the Group had 232 professionals in the design and engineering function, representing approximately 54% of its total employee headcount. The personnel mix had been realigned to include more system application and software engineers to match the requirement of the total system solution businesses. The Group's R&D team continually designs products using various wafer technologies as advanced as 90nm. Besides, the Group has specialist teams in Hong Kong, Shenzhen, Singapore and Taiwan with different expertise including mix-signal high-voltage IC design, VLSI (Very-large-scale-integration) design, application software design, system applications and wireless technology.

Human Resources

As at 30 June 2009, the Group had about 430 employees, of whom approximately 52% were based in the Hong Kong head office and the rest were located in China, Japan, Singapore, Taiwan and the USA. In all, there was a 16% decrease in headcount against 30 June 2008 as a result of realignment of the workforce and appropriate cost control.

As a technology company relying on intellectual excellence, the Group highly values its 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 the support from employees, belt tightening measures were implemented during 1H 2009. All employees of the Group including Executive Directors and senior management were subject to 2 days no-pay-leave per month, temporary reduction in 2009 the 13th month year-end payment and voluntary provident fund contribution plus other cuts in fringe benefits.

Executive Directors accepted more stringent pay reduction measure by increasing no-pay-leave from 2 days per month in 1H 2009 to 5 days per month in 2H 2009 while the no-pay-leave requirement for most employees was cancelled or relaxed in 2H 2009. To support the cost saving efforts of the Group, Non-executive Directors and Independent Non-executive Directors have voluntarily reduced their respective fees by approximately 20% for 2H 2009.

New product introduction bonus and first sales incentive which aim at driving the success of new product development and new businesses were paid to certain employees in 1H 2009.

On 14 July 2009, selected employees were granted shares under the Share Award Plan, subject to vesting, to recognize their past performance and as incentive for them to continue to serve the Company.

Prospects

With the book to bill ratio at 1.07 for the period ended 30 June 2009, the Group sees potential for improvement in market demand in 2H 2009. To prepare to tap that demand, the Group will continue to deliver new technologically leading ICs and expand its customer base. The Group will keep up its efforts in product diversification and in providing fast turnkey solutions to customers.

Display IC Businesses

Mobile Display

The Mobile Display business unit supports display driver ICs and touch panel ICs for mobile phones, MP3/MP4 players, PND, e-book, MDTV and other portable equipment. It covers key technologies including STN and m-TFT display ICs and multi-touch panel ICs, for monochrome display and color display that show images and support video streaming as well as touch panel functions.

The Mobile Display business unit continues to develop new generation display IC products with competitive features and support more display resolution formats. Features such as multi-touch panel IP, dynamic backlight control, landscape display resolution and MIPI/MDDI interface are examples of new competitive edges for the Mobile Display products to compete in the market.

In the next six months, the Group expects m-TFT display ICs to continue to make up a major portion of the IC unit shipment of mobile display business unit as the Group continues to add competitive features and find more diverse applications for the product family. Touch panel ICs are also expected to bring some new business opportunities to the unit.

OLED Display
Passive Matrix OLED ("PMOLED") and Active Matrix OLED ("AMOLED") are two families of OLED technology. With more than 150 million units of PMOLED IC shipped in the past 9 years, the Group continues to boast leadership in the PMOLED display IC market.

The PMOLED market, in general, is having a steady single digit growth, taking into account the increasing market acceptance of OLED display technology in health care products, office equipment and industrial applications. Mobile phones and MP3 players continue to be the two major applications employing OLED display.

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

New Display
Being the leader in the industry with its high-volume production of new display ICs, the Group maintains a positive view on the emerging new display IC business as more applications realize the advantages of the new display technology, particularly in mobile phone index & decorative display, ESL, portable storage devices such as USB thumb drive and external hard disk drive, and e-cards.

The Group continues to provide different varieties of IC solutions to cater 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 will surge; thus it will keep researching and expanding this business to make sure it stays ahead of the competition.

System Solution Businesses

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

Products in production like image processors and graphic controllers are supporting consumer applications such as handsets, MP4 players, PND and other portable consumer products. Given the continual design-wins for graphic controller products, the Group expects volume shipments to continue for the segment in 2H 2009.

With an early leadership in MIPI, the business unit won several design-in projects from top-tier players in the high-speed mobile interface markets. Mass production of the MIPI chipset commenced in 1H 2009 and more design-win projects are expected to be ready for mass production in 2H 2009.

Following the launch of the first high-performance MagusCore™ multimedia system solution in the third quarter of 2008 for the China MDTV market, another multimedia processor promising to offer system solutions of high cost-performance has been added to the MagusCore™ family in 1H 2009. And there will be more advanced solutions ready for launch in the next six months. The Group believes the MagusCore™ system solutions stand well in capturing new market opportunities in product applications like MDTV, PND, mini-projector and AV products.

The Display System Solution business unit also covers the business of WE3 Technology Company Limited ("WE3"), a subsidiary of the Group that focuses on design, development and integration of advanced wireless technology and devices. WE3 specializes in designing new mobile multimedia applications for end products including GSM/GPRS for mobile phones, global positioning system ("GPS") for PND and mobile multimedia broadcasting technology for MDTV. It facilitates delivery of total system solutions based on the current MDTV platform and expansion of system solutions into other high-volume applications like PND, WiFi and 3.5G mobile internet device.

Green Power

Set up in late 2008, the Green Power business unit focuses on the energy-saving or "green" products. It represents an extension as well as diversification of the Group's display business and aims to provide LED lighting system solutions that can capture the emerging environmental protection market. It aligns the Group's core IC design capability with the expertise of display specialist and system integrator in the value chain to supply immediate LED lighting solutions to the market.

Armed with its proprietary technology for high-brightness LED, lighting system integration expertise and the complementary LED driver ICs, the Group has already started selling LED driver ICs and LED emitter products for indoor LED lighting. It has also developed complete and competitive LED lighting solutions for outdoor LED lighting applications in China such as street lamp and architectural lighting. Many design-in projects with customers are in final product evaluation stage. In light of the potential of this emerging market, the Green Power business unit will strive to capture new business opportunities and bring in new sources of revenue beyond 2009.

Directors' Interest

As at 30 June 2009, the interests and short positions of each director and the chief executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 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 30 June 2009				
Name of directors		**Directly owned shares**	**Directly owned options**	**Beneficially owned shares[i]**	**Total**	**% of the issued share capital of the Company**
Independent Non-executive Directors						
Sun, Patrick	Long	–	1,500,000	–	1,500,000	0.06%
	Short	–	–	–	–	–
Choy Kwok Hung, Patrick	Long	1,712,000	1,500,000	–	3,212,000	0.13%
	Short	–	–	–	–	–
Wong Yuet Leung, Frankie	Long	–	1,500,000	–	1,500,000	0.06%
	Short	–	–	–	–	–
Non-executive Directors						
Chang Ching Yi, Steven	Long	1,800,000	1,500,000	–	3,300,000	0.13%
	Short	–	–	–	–	–
Lam Pak Lee	Long	800,000	1,500,000	–	2,300,000	0.09%
	Short	–	–	–	–	–
Sheu Wei Fu	Long	–	–	–	–	–
(alternate to Lam Pak Lee)	Short	–	–	–	–	–
Executive Directors						
Leung Kwong Wai	Long	120,900,308	2,520,000	1,500,000[ii]	124,920,308	5.11%
	Short	–	–	1,500,000[ii]	1,500,000	0.06%
Cheung Wai Kuen, Kenny	Long	100,000	–	1,000,000[iii]	1,100,000	0.04%
	Short	–	–	1,000,000[iii]	1,000,000	0.04%
Huang Hsing Hua	Long	9,922,746	1,500,000	228,000[ii]	11,650,746	0.48%
	Short	–	–	228,000[ii]	228,000	0.01%
Lai Woon Ching	Long	25,671,032	1,550,000	228,000[ii]	27,449,032	1.12%
	Short	–	–	228,000[ii]	228,000	0.01%
Lo Wai Ming	Long	32,344,179	1,500,000	228,000[ii]	34,072,179	1.39%
	Short	–	–	228,000[ii]	228,000	0.01%

Note:

(i) The shares are held by the Trustee for the benefit 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) 1,000,000 shares were awarded to Mr. Cheung Wai Kuen, Kenny ("Mr. Cheung"), Executive Director of the Company and Senior Vice President of Display System Solution ("DSS") on 17 March 2009 under the share award plan adopted by the Company pursuant to a resolution of the Shareholders on 25 February 2004 and a resolution of the Board on 19 March 2004, and subject to vesting, pursuant to the commitment on his additional role in DSS with effect from 12 September 2008 on top of his role as CEO of WE3, 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.

Saved as disclosed above, at no time during the period, 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 corporations required to be disclosed pursuant to the SFO.

On 9 March 2009, Mr. Cheung Wai Kuen, Kenny was appointed as an Executive Director of the Company. Mr. Cheung Wai Kuen, Kenny has been CEO of WE3 since 2005 and holds 4.38% of ordinary shares of WE3.

During the period, 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 period was the Company, its subsidiaries or its associated companies 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 company 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

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 30 June 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 the chief executive of the Company.

	Ordinary shares of HK$0.10 each in the Company			
Name	**Capacity**	**Position**	**Number of shares held**	**% of the issued share capital of the Company**
State Street Corporation	Interest of controlled corporation	Lending pool	133,067,637	5.44%
China Electronics Corporation	Interest of controlled corporation	Long	255,244,000	10.44%

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 30 June 2009.

Share Option Scheme

Share options have been granted to directors, senior management and employees of the Group under the Share Option Scheme approved by 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 Chapter 17 of the Listing Rules. The Share Option Scheme is valid and effective for a period of 10 years commencing from 19 March 2004, being the date of adoption of the Scheme by the Board of the Company.

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 all 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 period, 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 peiod 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 30 June 2009 which have been granted under the Share Option Scheme are as follows:

Name of participants	Number of options: Held on 1 January 2009	Number of options: Lapsed during the period	Number of options: Forfeited during the period	Number of options: Held on 30 June 2009	Exercise price HK$	Grant date	Exercise period: Begins	Exercise period: Ends
Independent Non-executive Directors								
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
	2,000,000	(500,000)	–	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
	2,000,000	(500,000)	–	1,500,000				
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
	2,000,000	(500,000)	–	1,500,000				
Subtotal	**6,000,000**	**(1,500,000)**	**–**	**4,500,000**				
Executive and Non-executive Directors								
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
	2,000,000	(500,000)	–	1,500,000				
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
	2,000,000	(500,000)	–	1,500,000				
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
	3,020,000	(500,000)	–	2,520,000				

Share Option Scheme (continued)

Name of participants	Number of options				Exercise price HK$	Grant date	Exercise period	
	Held on 1 January 2009	Lapsed during the period	Forfeited during the period	Held on 30 June 2009			Begins	Ends
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
	2,000,000	(500,000)	–	1,500,000				
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
	2,050,000	(500,000)	–	1,550,000				
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
	2,000,000	(500,000)	–	1,500,000				
Subtotal	**13,070,000**	**(3,000,000)**	**–**	**10,070,000**				
Senior management , employees and others								
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	–	–	2,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
Subtotal	**7,700,000**	**(1,000,000)**	**(150,000)**	**6,550,000**				
Total	**26,770,000**	**(5,500,000)**	**(150,000)**	**21,120,000**				

Except for 5,500,000 share options lapsed and 150,000 share options forfeited and cancelled during the period, there was no option being granted or exercised under the Share Option Scheme.

Mr. Sun, Patrick, Independent Non-executive Chairman and Mr. Lam Shun Fu, Ex-director of the Company, have exercised in full the share options granted to them on 24 July 2008 in early July 2009.

Corporate Governance and Supplementary Information

Corporate Governance is highly regarded within the Group. The Group keeps abreast of the best practices in the corporate governance area and strives to implement such practices as appropriate. At present, the roles of Non-executive Chairman and the Chief Executive Officer (in the case of the Group, the Managing Director) are separated. In addition, Independent Non-executive Directors ("INEDs") and Non-executive Directors ("NEDs") are appointed for a specific term up to 30 June 2010, subject to re-election according to the procedures set out in the Company's Articles of Association. INEDs and NEDs are encouraged to take educational courses at the expense of the Group on duties of the Board and corporate governance.

Code on Corporate Governance Practices

The Company has complied with all applicable code provisions as set out in the Appendix 14 of the Listing Rules throughout the six months ended 30 June 2009. As at 30 June 2009, Audit Committee, Remuneration Committee, Nomination Committee and Investment Committee had been formed with their respective terms of reference in force.

As at 18 August 2009, the composition of the Board of the Company was as follows:

INED	NED	Executive Directors
Mr. Sun, Patrick - Chairman of the Board - Chairman of Nomination Committee	Mr. Chang Ching Yi, Steven - Chairman of Remuneration Committee	Mr. Leung Kwong Wai - Managing Director - Chairman of Investment Committee
Mr. Choy Kwok Hung, Patrick	Dr. Lam Pak Lee	Mr. Cheung Wai Kuen, Kenny
Mr. Wong Yuet Leung, Frankie - Chairman of Audit Committee	Mr. Sheu Wei Fu (Alternate to Dr. Lam Pak Lee)	Mr. Huang Hsing Hua
		Mr. Lai Woon Ching
		Mr. Lo Wai Ming

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

Pursuant to Appendix 14 of the Listing Rules, the Group established its own written guidelines ("Guidelines") on no less exacting terms than the Appendix 10 of the Listing Rules ("Model Code") for the Directors and 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. Specific enquiry had been made with the Directors and relevant employees and they had complied with the Group's own Guidelines throughout the six months ended 30 June 2009.

Other Changes about Directors

Mr. Lam Shun Fu, Percy was re-designated from an Executive Director to a NED effective from 1 February 2009 and his term as NED of the Company expired on 12 May 2009, the day immediately before the 2009 Annual General Meeting ("AGM") and he ceased to be a NED of the Company with effect from 13 May 2009.

Mr. Cheung Wai Kuen, Kenny, was appointed as an Executive Director on 9 March 2009 with no fixed term but Mr. Cheung is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

In accordance with Article 95 and Article 112 of the Company's Articles of Association, the retiring directors namely Mr. Cheung Wai Kuen, Kenny, Dr. Lam Pak Lee, Mr. Lai Woon Ching and Mr. Lo Wai Ming, at the 2009 AGM were all successfully re-elected.

With the support from employees, belt tightening measures were implemented during 1H 2009. Executive Directors were subject to 2 days no-pay-leave per month, temporary reduction in 2009 the 13th month year-end payment and voluntary provident fund contribution together with other trim and cut in fringes, etc.

On 13 July 2009, directors were awarded share options under the share option scheme of the Company, for their past and forthcoming contributions to the Group. On the other hand, Executive Directors accepted more stringent pay reduction measure by increasing no-pay-leave from 2 days per month in 1H 2009 to 5 days per month in 2H 2009 while the no-pay-leave requirements for most of the employees were cancelled or relaxed. For Executive Directors, it was estimated that there would be no less than 20% reduction in the non-equity remuneration package for 2009 compared with 2008. To support belt tightening measures of the Group, NEDs and INEDs have voluntarily reduced their respective fees by approximately 20% for 2H 2009.

Furthermore, the following changes were noted during the period:

— Mr. Wong Yuet Leung, Frankie, INED of the Company - China Central Properties Limited (CCPL), which Mr. Wong Yuet Leung, Frankie is a Non-executive Director, was delisted from the London Stock Exchange plc in June 2009.

— Mr. Choy Kwok Hung, Patrick, INED of the Company - resigned as INED of Road King Infrastructure Limited (HKSE: 1098) on 21 May 2009.

— Mr. Choy Kwok Hung, Patrick and Mr. Lo Wai Ming, INED and Executive Director respectively of the Company were nominated as directors of BJ-LED on 18 December 2008 to proceed for the application of Sino-foreign joint venture enterprise. BJ-LED obtained the Certificate of Approval for establishment of enterprises with foreign investment in the PRC on 24 March 2009.

After due enquiry to all the directors, there is no change in any of the information of directors as required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) during the course of the director's term of office required to publish an announcement according to Rule 13.51B(2).

Purchase, Sale or Redemption of the Company's Listed Shares

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

Review of Interim Condensed Consolidated Financial Statements

The Audit Committee is composed of three INEDs. The unaudited Interim Financial Statements of the Group for the six months ended 30 June 2009 have been reviewed by the Audit Committee of the Company alongside the internal audit team.

The unaudited Interim Financial Statements of the Group for the six months ended 30 June 2009 have been reviewed by the Company's independent auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The auditor's independent review report is on page 24 of this report.

Investor Relations and Communications

The Group recognizes the rights of the Company's shareholders to know more about its business and prospect, and therefore it has always taken a proactive approach to communicate with the investment community, for example institutional investors, sell-side analysts and retail investors. In the first half of 2009, the Group held more than 14 meetings and conference calls with investors and analysts. To enhance the Group's profile among the general public in Hong Kong, several interviews were conducted with local media, and several group visits to its head office were arranged with local universities and technology institution. Stakeholders of the Company are recommended to visit the Company's website (www.solomon-systech.com) from time to time, where up-to-date information of the Group can be accessed.

Publication of Interim Results on the Stock Exchange's Website and the Company's Website

All the financial and other related information of the Company required by the Listing Rules of the Stock Exchange has been published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.solomon-systech.com) on 18 August 2009.

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

Hong Kong, 18 August 2009

Corporate and Shareholder Information

Financial Calendar

Financial Year End	31 December
Interim Results Announced	18 August 2009

Share Listing

Listing Venue	Main Board of The Stock Exchange of Hong Kong Limited
Listing Date	8 April 2004
Stock Code	2878
Board Lot	2,000 shares
Trading Currency	HKD
Issued Shares	2,445,302,351 (as at 30 June 2009)

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