



**SOLOMON
SYSTECH**

SOLOMON SYSTECH

Interim Report 2007

Solomon Systech (International) Limited

solutions in silicon

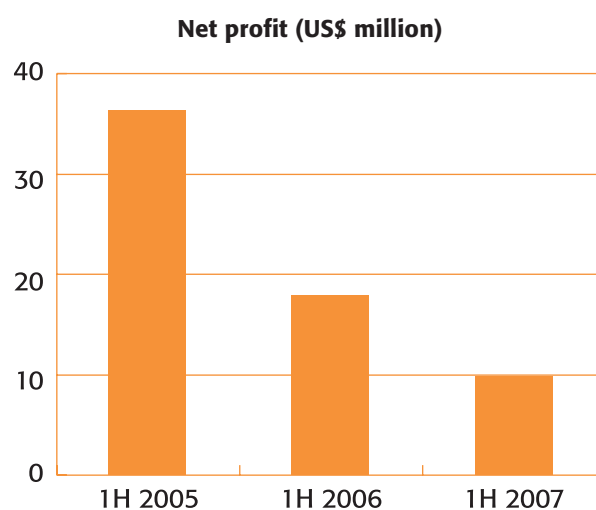
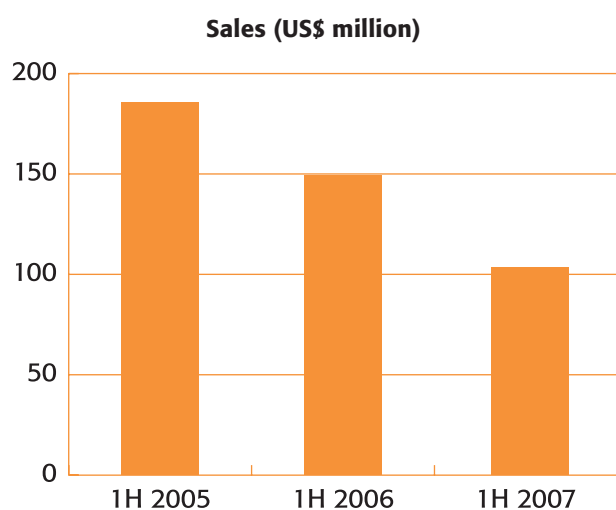
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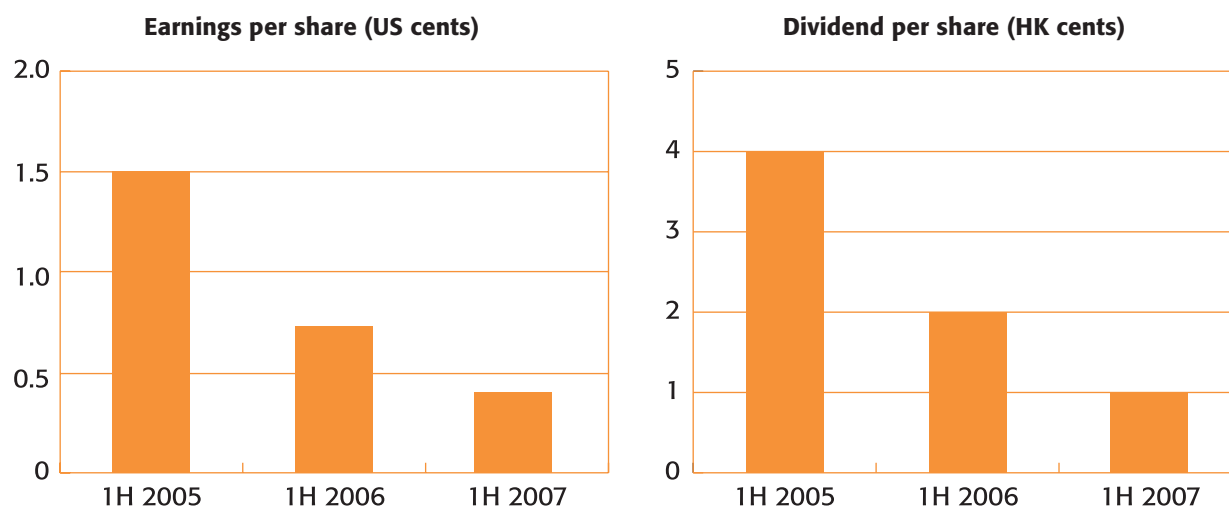
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Highlights

Unaudited			
Six months ended 30 June			
	2007	2006	
	US\$ million	US\$ million	Change
Sales	103.4	149.4	-31%
Gross profit	25.0	37.0	-32%
Net profit	9.8	17.9	-45%
Total assets	219.8	230.2	-5%
Shareholders' funds	177.5	180.1	-1%
(US cent)			
Earnings per share	0.40	0.73	
Dividend per share	0.13	0.26	
Book to Bill Ratio	0.67	1.05	

- Sales amounted to US\$103.4 million
- Net profit was US\$9.8 million
- Basic earnings per share was 0.40 US cent (3.1 HK cents)
- The Board of Directors (the "Board") resolved to declare an interim dividend per share of 1.0 HK cent (0.13 US cent)
- Book to bill ratio at 30 June 2007 was 0.67





Notes:

- i. Earnings 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") have resolved to declare an interim dividend of 1.0 HK cent per share to shareholders whose names appear on the Register of Members of the Company on 28 September 2007. The interim dividend will be paid on 10 October 2007.

Closure of Register of Members

The Register of Members of the Company will be closed from 24 September 2007 to 28 September 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 21 September 2007.

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 2007 together with the comparative figures for the corresponding period of last year as follows.

Condensed Consolidated Interim Income Statement

For the Six Months Ended 30 June 2007

	Notes	Unaudited	
		Six months ended 30 June	
		2007	2006
		US\$'000	US\$'000
Sales	6	103,420	149,415
Cost of sales		(78,461)	(112,464)
Gross profit		24,959	36,951
Other gain – net		650	139
Research and development costs		(9,210)	(7,882)
Selling and distribution expenses		(1,550)	(1,728)
Administrative expenses		(6,964)	(8,658)
Other operating expenses		(16)	(15)
Operating profit		7,869	18,807
Interest income		3,979	3,198
Finance costs		(1)	(1)
Share of results of associated companies		(159)	(400)
Profit before taxation		11,688	21,604
Taxation	8	(1,879)	(3,712)
Profit attributable to shareholders		9,809	17,892
Dividends	9	3,184	6,467
Earnings per share (in US cent per share)	10		
Basic		0.40	0.73
Diluted		0.39	0.72

The notes on pages 7 to 17 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Balance Sheet

As at 30 June 2007

		Unaudited 30 June	Audited 31 December
	Notes	2007 US\$'000	2006 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		10,929	13,785
Investments in associated companies		3,227	3,185
Available-for-sale financial assets	11	4,177	2,535
Fixed bank deposits		4,000	2,000
		22,333	21,505
Current assets			
Inventories		14,627	18,253
Trade and other receivables	12	32,926	61,688
Other financial assets		2,682	1,000
Pledged bank deposits		130	130
Short-term fixed bank deposits		39,638	8,083
Cash and cash equivalents		107,445	110,422
		197,448	199,576
Total assets		219,781	221,081
EQUITY			
Capital and reserves			
Share capital	14	32,083	32,251
Own shares held		(303)	(491)
Reserves			
Proposed dividend		3,184	12,869
Others		142,519	135,254
		177,483	179,883
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		14	19
Deferred tax liabilities		444	827
		458	846
Current liabilities			
Trade and other payables	13	39,280	38,527
Tax payables		2,550	1,815
Obligations under finance leases		10	10
		41,840	40,352
Total liabilities		42,298	41,198
Total equity and liabilities		219,781	221,081
Net current assets		155,608	159,224
Total assets less current liabilities		177,941	180,729

The notes on pages 7 to 17 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2007

Unaudited								
	Share capital	Share premium	Own shares held	Merger reserve	Exchange reserve	Equity compensation reserve	Retained earnings	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2006	32,360	89,355	(605)	2,082	(24)	3,135	80,710	207,013
Exchange difference	–	–	–	–	(24)	–	–	(24)
Dividend paid, net of portion for own shares held	–	–	–	–	–	–	(47,787)	(47,787)
Profit for the period	–	–	–	–	–	–	17,892	17,892
Equity compensation	–	–	82	–	–	3,026	(82)	3,026
At 30 June 2006	32,360	89,355	(523)	2,082	(48)	6,161	50,733	180,120
At 1 January 2007	32,251	87,968	(491)	2,082	12	9,302	48,759	179,883
Exchange difference	–	–	–	–	150	–	–	150
Dividend paid, net of portion for own shares held	–	–	–	–	–	–	(12,802)	(12,802)
Shares repurchased	(168)	(1,927)	–	–	–	–	–	(2,095)
Profit for the period	–	–	–	–	–	–	9,809	9,809
Equity compensation	–	–	188	–	–	2,538	(188)	2,538
At 30 June 2007	32,083	86,041	(303)	2,082	162	11,840	45,578	177,483

The notes on pages 7 to 17 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Cash Flow Statement

For the Six Months Ended 30 June 2007

	Unaudited	
	Six months ended 30 June	
	2007	2006
	US\$'000	US\$'000
Net cash generated from/(used in) operating activities	49,100	(1,321)
Net cash used in investing activities	(37,356)	(12,595)
Net cash used in financing activities	(14,902)	(47,791)
Net decrease in cash and cash equivalents	(3,158)	(61,707)
Effect of foreign exchange rate changes	181	(66)
Cash and cash equivalents at 1 January	110,422	119,479
Cash and cash equivalents at 30 June	107,445	57,706
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	107,445	57,706

The notes on pages 7 to 17 are 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 design, development and sales of proprietary integrated circuits ("IC").

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 309GT, Uglad House, South Church Street, George Town, Grand Cayman, 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's shares have 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 US dollars, unless otherwise stated. These Interim Financial Statements have been approved for issue by the Board of Directors on 6 September 2007.

2. Basis of preparation

These unaudited Interim Financial Statements for the half year ended 30 June 2007 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 (the "HKICPA").

These Interim Financial Statements should be read in conjunction with the Company's 2006 annual report.

3. Accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2006.

(a) Amendments to published standards effective and new/revised standard/interpretation which are relevant to the Group's operations and are mandatory in 2007:

• HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures
• HKFRS 7	Financial Instruments: Disclosures
• HK (IFRIC) – Int 8	Scope of HKFRS 2
• HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives
• HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of these new/revised Hong Kong Financial Reporting Standards ("HKFRS") did not result in substantial changes to the accounting policies of the Group.

(b) New HKFRS relevant to the Group's operation that have been issued but are not yet effective for 2007 and have not been early adopted by the Group:

• HKAS 23 (Revised)	Borrowing Costs
• HKFRS 8	Operating Segments
• HK (IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions

The Directors anticipate the application of these HKFRS will not result in substantial changes to the accounting policies of the Group.

4. Financial risk management

4.1 Financial risk factors

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

(a) Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Revenue and majority of the cost of sales are US dollar based. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

(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.

(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

The Group has no significant interest-bearing assets or liabilities except for bank balances. In view that majority of these bank balances are under short maturity terms, the cash flow and fair value interest rate risk is considered to be low.

4.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded available-for-sale financial assets) 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.

The nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values.

5. 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 discussed below.

(a) 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 during the ordinary course of business. 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 and deferred tax provisions in the period in which such determination is made.

5. Critical accounting estimates and judgements (continued)

(b) Equity compensation

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

(c) 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. The Group 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.

6. Segment information

(a) Primary reporting format – business segment

During the period, the Group is principally engaged in design, development and sales of proprietary IC.

The Group has been operating in one single business segment, i.e. design, development and sales of proprietary ICs. Sales amounted to US\$103,420,000 and US\$149,415,000 for the periods ended 30 June 2007 and 2006 respectively.

(b) Secondary reporting format – geographical segments

The Group mainly operates in Hong Kong SAR ("Hong Kong"). The Group mainly sells to customers located in Hong Kong, Taiwan, Southeast Asia and Japan.

(i) Sales

	Unaudited Six months ended 30 June	
	2007 US\$'000	2006 US\$'000
Hong Kong	76,263	113,034
Taiwan	13,151	11,437
Southeast Asia	5,998	1,924
Japan	3,622	16,641
Mainland China ("China")	1,849	3,577
Korea	679	2,446
United States of America ("USA")	99	221
Others	1,759	135
	103,420	149,415

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

6. Segment information (continued)

(b) Secondary reporting format – geographical segments (continued)

(ii) Total assets

	Unaudited 30 June	Audited 31 December
	2007 US\$'000	2006 US\$'000
Hong Kong	195,210	191,613
Taiwan	13,185	18,434
Others	11,386	11,034
	219,781	221,081

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

(iii) Capital expenditures

	Property, plant & equipment		Investments in			
			Associated companies		Available-for-sale financial assets	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
	Unaudited Six months ended 30 June					
Hong Kong	196	2,618	200	—	—	—
China	45	1,154	—	—	—	2,346
Southeast Asia	101	—	—	—	—	—
Taiwan	3	16	—	—	—	1,556
USA	—	—	—	—	1,642	—
Others	—	19	—	—	—	—
	345	3,807	200	—	1,642	3,902

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

7. 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 Six months ended 30 June	
	2007 US\$'000	2006 US\$'000
Depreciation of owned property, plant and equipment	3,124	2,689
Depreciation of leased property, plant and equipment	7	6
Operating leases for land and buildings	521	414
Director and employee expenses		
– Equity compensation	2,538	3,026
– Non-equity compensation	7,908	7,469
Net exchange gain	(89)	(17)
Provision for impairment of receivables	3	7
(Write-back of provision)/provision for obsolete or slow moving inventories	(149)	1,271

8. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Unaudited Six months ended 30 June	
	2007 US\$'000	2006 US\$'000
Current taxation:		
– Hong Kong profits tax	2,261	3,536
– Overseas profits tax	1	7
(Reversal)/charge for deferred taxation	(383)	169
Taxation	1,879	3,712

9. Dividends

	Unaudited	
	Six months ended 30 June	
	2007	2006
	US\$'000	US\$'000
(a) Dividend attributable to the previous year, approved and paid during the period:		
2006 final dividend, paid, of HK\$0.04 (approximately 0.51 US cent) per ordinary share ⁽ⁱ⁾	12,802	—
2005 final dividend, paid, of HK\$0.15 (approximately 1.93 US cents) per ordinary share	—	48,540
	12,802	48,540
Less: Company's share of dividend paid on the shares held by a special purpose entity of the Group	—	(753)
	12,802	47,787
(b) Dividend attributable to the period:		
2007 interim dividend, declared, of HK\$0.01 (approximately 0.13 US cent) per ordinary share ⁽ⁱⁱ⁾	3,184	—
2006 interim dividend, paid, of HK\$0.02 (approximately 0.26 US cent) per ordinary share	—	6,467
	3,184	6,467
Less: Company's share of dividend paid on the shares held by a special purpose entity of the Group	—	(94)
	3,184	6,373

Notes:

- (i) At a meeting held on 26 March 2007, the Directors proposed a final dividend of HK\$0.04 (approximately 0.51 US cent) per ordinary share. The final dividend was paid on 10 May 2007.
- (ii) On 6 September 2007, the Directors declared an interim dividend of HK\$0.01 (approximately 0.13 US cent) per ordinary share which will be payable on 10 October 2007 to shareholders whose names appear on the register of members on 28 September 2007. The interim dividend is not reflected as a dividend payable in the Interim Financial Statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

10. Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of US\$9,809,000 (2006: US\$17,892,000).

The basic earnings per share is based on the weighted average of 2,461,715,063 (2006: 2,464,909,041) ordinary shares in issue excluding own shares held during the period.

Diluted earnings per share information is based on 2,485,384,312 (2006: 2,489,441,986) 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 as calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited Six months ended 30 June	
	2007	2006
Weighted average number of ordinary shares in issue	2,461,715,063	2,464,909,041
Adjustments for		
– allocated own shares held	23,669,249	23,476,265
– share options	–	1,056,680
Weighted average number of ordinary shares for diluted earnings per share	2,485,384,312	2,489,441,986

11. Available-for-sale financial assets

	Unaudited 30 June	Audited 31 December
	2007 US\$'000	2006 US\$'000
Unlisted shares, at cost	5,828	4,186
Less: Provision of impairment loss	(1,651)	(1,651)
	4,177	2,535

There was no disposal of available-for-sale financial assets during the six months ended 30 June 2007. All the available-for-sale financial assets are unlisted equity securities.

12. Trade and other receivables

	Unaudited 30 June	Audited 31 December
	2007 US\$'000	2006 US\$'000
Trade and bills receivables	28,179	57,707
Less: provision for impairment of receivables	(64)	(61)
Trade and bills receivables - net	28,115	57,646
Prepayments and other receivables	4,811	4,042
	32,926	61,688

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

	Unaudited 30 June	Audited 31 December
	2007 US\$'000	2006 US\$'000
0 - 30 days	25,707	41,633
31 - 60 days	1,184	12,445
61 - 90 days	967	2,980
91 - 180 days	257	523
181 - 365 days	—	65
	28,115	57,646

13. Trade and other payables

	Unaudited 30 June	Audited 31 December
	2007 US\$'000	2006 US\$'000
Trade payables	30,310	28,672
Accrued expenses	8,970	9,855
	39,280	38,527

The ageing analysis of the trade payables is as follows:

	Unaudited 30 June	Audited 31 December
	2007 US\$'000	2006 US\$'000
0 - 30 days	30,112	28,442
31 - 60 days	78	50
61 - 90 days	14	7
Over 90 days	106	173
	30,310	28,672

14. Share capital

	Unaudited		Audited	
	2007		2006	
	No. of shares	US\$'000	No. of shares	US\$'000
Authorised:				
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	2,502,654,351	32,251	2,511,154,351	32,360
Shares repurchased	(13,050,000)	(168)	(8,500,000)	(109)
At 30 June 2007 and 31 December 2006	2,489,604,351	32,083	2,502,654,351	32,251

During the period, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month	Number of shares repurchased	Highest	Lowest	Aggregate price paid	
		price paid per share HK\$	price paid per share HK\$	HK\$'000	US\$'000
March	5,000,000	1.29	1.27	6,400	824
April	8,050,000	1.24	1.21	9,870	1,271
Total	13,050,000			16,270	2,095

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

15. Equity compensation scheme

(a) 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.

On 7 February 2007, options to subscribe for 22,600,000 shares of the Company were granted by the Company to directors, senior management and employees of the Group at a nominal consideration of HK\$1.0 payable by each grantee. Subject to the level of achievement of "2007 Key Drivers for Business Performance" applicable to each grantee, 40% of these options may be exercised commencing 1 April 2009 and 60% commencing 1 April 2010 within a period of two years, at the exercise price of HK\$1.43 per share.

On 28 June 2007, options to subscribe for 6,300,000 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. These options may be exercised commencing 1 July 2008 to 30 June 2010, at the exercise price of HK\$1.118 per share.

Movements in the number of share options outstanding are as follows:

	Unaudited Number of shares Six months ended 30 June	
	2007	2006
At 1 January	11,600,000	6,100,000
Granted	28,900,000	5,500,000
Cancelled	(900,000)	—
At 30 June	39,600,000	11,600,000

No option under the Share Option Scheme has lapsed or has been exercised during the period.

15. Equity 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 (the "Trustee") as trustee for the benefit of the directors and employees.

Under the terms and condition 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. At 30 June 2007, the number of shares allocated but remained unvested under the Trustee for directors and employees of the Group was 24,018,000 while the number of shares held by the Trustee was 23,557,520. With the approval of the Remuneration Committee, the Trustee executed the instruction to replenish the pool by purchasing 4,000,000 shares at the market price of HK\$1.10 using the cash held by the Trustee on 3 July 2007.

Shares held by the Trustee under the Share Award Plan

	Unaudited Number of shares	
	2007	2006
At 1 January	38,217,520	47,055,520
Shares vested during the period	(14,660,000)	(6,376,000)
At 30 June	23,557,520	40,679,520

The Group has been using HKFRS 2 in the Interim Financial Statements for the period ended 30 June 2007 and 2006 to account for the equity compensation expenses of the shares granted at the date of grant at fair value.

16. Operating lease commitments

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

	Unaudited 30 June	Audited 31 December
	2007 US\$'000	2006 US\$'000
Not later than 1 year	1,042	1,086
Later than 1 year and not later than 5 years	906	1,424
Later than 5 years	118	131
	2,066	2,641

Report on Review of Interim Financial Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, 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 17, which comprises the consolidated condensed balance sheet of Solomon Systech (International) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2007 and the related consolidated condensed statements of income, changes in equity and cash flows for the six-month period then ended. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited requires 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, 6 September 2007

Management Discussion and Analysis

Financial Review

An Overview

For the six months ended 30 June 2007, the Group's sales was US\$103.4 million (1H 2006: US\$149.4 million). The decline was mainly due to a 21% decline year-on-year in shipment quantity of Solomon Systech Limited, the major subsidiary of the Company, and a continuous drop in the prices of its products. During the review period, gross profit was US\$25.0 million. Through altering product mix, internal cost reduction measures and ongoing price discussion with contract manufacturers, the Group managed to offset part of the gross margin pressure brought by industry price erosion. For the first half of 2007, the Group's gross margin was 24.1%.

Throughout the period, the Group continued to expend on R&D and business development, therefore there was an increase in R&D expenses. The operating expenses were maintained at the same level as the Group has taken cost control measures in administrative expenses. Affected by a lower gross profit, the Group's net profit was US\$9.8 million, representing a net profit margin of 9.5%.

In light of the Group's net profit and relatively rich cash position, the Board resolved to declare an interim dividend of 1.0 HK cent per share to shareholders whose names appear on the Register of Members of the Company on 28 September 2007.

Financial Position and Liquidity

Net cash generated from operations during the period amounted to US\$49.1 million. The Group ended the period with US\$107.4 million of net cash (i.e. cash and cash equivalents less bank loans) together with US\$43.6 million fixed bank deposits. Going forward, the Group intends to use the cash for its product development, investment in securing production capacity, corporate venture investing as well as general corporate purposes. As at 30 June 2007, the Group had no borrowings and there were no significant charges on the Group's assets. The Group's cash balance was mainly deposited in interest-bearing accounts with reputable financial institutions.

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

Capital Expenditure

Capital expenditure for the period was approximately US\$2.2 million (1H 2006: US\$7.7 million), the majority of which was spent on the purchase of available-for-sale financial assets.

As at 30 June 2007, the Group held US\$7.4 million investments in associated companies and available-for-sale financial assets. During the review period, the Group did not make any material acquisitions nor disposals of subsidiaries and associated companies. (note 6(b)(iii) of the Interim Financial Statements)

Capital Commitment and Contingent Liabilities

The Group had no material capital commitments or contingent liabilities as at 30 June 2007.

Business Review

Book to Bill Ratio and Backlog

In the review period, the book to bill ratio stood at 0.67, reflecting the competitive market situation and reduced business from a major customer. As at 30 June 2007, the Group registered a backlog of orders in excess of 50 million units for the second half of 2007.

Product Shipment

The unit shipment in the first half declined by 21% year-on-year. The shipment of monochrome STN and color STN ("CSTN") display ICs decreased as the mobile phone market had gradually shifted its demand to mobile TFT ("m-TFT") display ICs. M-TFT display ICs shipment recorded a solid growth of 42% to 17 million units, reflecting that the design-in activities of this product family was progressively turning into mass production. OLED display ICs showed a growth of 63% year-on-year to 13 million units as the OLED display market became more stable and the display technology continued to find new applications. The shipment of bistable display ICs remained steady since its introduction in the second half of 2006. In the first half, the Group also shipped small volumes of display system ICs and large display TFT driver ICs. The shipment breakdown by product type is as follows:

Units Shipped (million)	1H 2007	1H 2006	Change	2006
Monochrome STN	18	23	-22%	43
Color STN	41	81	-49%	134
m-TFT	17	12	42%	19
OLED	13	8	63%	22
Bistable	9	—	+0%	10
Miscellaneous	1	1	0%	2
Total	99	125	-21%	230

Note: Miscellaneous includes image processors, graphic controllers, MIPI ICs, microdisplay ICs, large display driver ICs and others.

Abbreviation: STN stands for super twisted nematic; TFT, thin-film transistor; and OLED, organic light-emitting device.

The total shipment of display ICs in the review period was 99 million units. According to a recent forecast made by iSuppli, global shipments of mobile phones for 2007 are expected to have a modest growth of 10.1% in 2007 to 1.09 billion units, after a nearly 21% growth in 2006 to 990 million units. The Group believes that its global market share in mobile phone display ICs for the first half was in the range of 13-15%.

Going into the second half of 2007, the Group will concentrate on developing projects with strategic alliances, providing dedicated services, comprehensive products and solutions to customers in order to defend its market position and prepare for long-term growth.

Business Relationships

To enhance business development and customer relationships, the Group strategically focused resources to develop key customer accounts in the first half of 2007. Each key account identified has a dedicated support team, including an account champion, technical and field application support, and quality assurance, to provide timely services to customers as well as open up more opportunities for specific projects.

For the Display Panel business, the Group currently serves most of the world's major display module makers. The Group continues to focus on approaching original design manufacturer ("ODM") and independent design house ("IDH") directly so as to achieve connections with the participants in the value-chain. During the period, the Group extended its relationships with leading customers from China, Japan, Korea and Taiwan, through whom it can broaden its relationship with top-tier end-product manufacturers.

Regarding the Display System business, the Group provides customers with “total display IC solutions” for specific high-volume applications. Given this enlarged product offering, the Group broadened its customer base for the emerging consumer product applications. Meanwhile, the Group’s leading technology in system solutions reinforced its business relationships with existing customers and also attracted new key customers.

Research and Development

In the past six months, research and development costs were approximately US\$9.2 million. To support business growth and to be competitive in the marketplace, the Group keeps on enhancing the features of existing products and developing future products, e.g. dynamic backlight function, new generation of OLED ICs, MIPI¹ second-generation bridge ICs and multimedia processors. In the first half of 2007, the Group filed two patents with the United States Patent and Trademark Office and had three technical articles published in international magazines such as *Display Devices* and *EEPW*.

As at 30 June 2007, the Group had around 240 professionals in the design and engineering function, representing approximately 60% of the Group’s total employee headcount. The Group’s R&D team continually designs products using various wafer technologies as advanced as 0.13µm. Besides, the Group has a specialist team in place to develop its own wafer process technology so as to achieve cost advantages in the long run.

Human Resources

As at 30 June 2007, the total number of the Group’s employee headcount was about 400, of which approximately 57% were based in its head office in Hong Kong. The rest were located in China, Japan, Singapore, Taiwan and the USA.

As a technology company, the Group highly values its human resources. To reward talent, the Group offers competitive remuneration to employees and constantly provides employees with training, career development programs and a first-rate working environment in the hope that they will enjoy working with the Group and contribute their efforts to the Group’s success.

In the first half of 2007, most employees were granted cash bonuses and Company’s shares in recognition of their performance in 2006. On top of that, a share option award scheme was also put in place for selected employees to drive for business performance in 2007. At the Board level, directors were awarded share options for their past and forthcoming contributions to the Group.

Prospects

As per the book to bill ratio of 0.67 as at 30 June 2007, a decline in sales should be expected for the second half of 2007. To improve the situation, the Group has made progress in delivering new technologically leading ICs, and has expanded its customer base. The Group will continue its efforts in product diversification and in providing fast turnkey solutions for customers.

Display Panel

Mobile Display

The markets covered by this business unit include mobile phones, MP3/MP4, GPS, portable equipment, AV applications, etc. Key display panel technologies range from monochrome STN, color STN, m-TFT and OLED displays to the recently introduced E-paper display. Each of these display technologies has its own unique display characteristics and is therefore experiencing different phases of growth in different applications.

¹ MIPI – Mobile Industry Processor Interface

As regards the Group's business in the next six months, it is expected that the shipment of monochrome display ICs will decrease gradually in time with the migration of monochrome displays to color displays. Due to the cost of m-TFT modules becoming more competitive, which has limited the shipment of CSTN display modules, the CSTN display IC shipment will continue to decline. The Group is aware that there will be an expected shortage of m-TFT LCD panel supply in the industry in the coming six months. Such shortage will affect the growth of m-TFT display ICs, although m-TFT display ICs recorded significant growth in the first half of this year. The Group carries on expanding its m-TFT business through (i) creating strategic alliances with panel makers; (ii) introducing new generation driver IC products with MIPI high speed interface; and (iii) supporting more display resolution formats for product application diversification.

About OLED display ICs, the market will remain stable in the second half of 2007 with some major business opportunities due to (i) the increasing maturity of the OLED display technology in mass production; and (ii) the rising demand for new applications, such as Bluetooth headsets, mobile phone main displays, OLED mobile phone keypads and notebook sub-displays. The Group continues to be the leader in the OLED display ICs market.

Large Display

The core competency in IC design and development has enabled the Group to develop technologically competitive ICs for large displays. The Group is making an effort to build relationships with large TFT LCD panel makers in China, Japan and Taiwan region on new design-ins. It is expected that this business will take longer time to gradually contribute to revenue.

New Display

The E-paper mobile phone introduced in the second half of 2006 using the Group's bistable display IC has made a noteworthy impact in the market and aroused a lot of interest in this technology. Potential applications beyond the mobile phone are plentiful as E-paper technology improves. Being the leader in the industry with its high-volume production of bistable display ICs, the Group has a positive view on the emerging bistable display IC business as more applications realize the advantages of the bistable display technology. Apart from the volume shipment to support the E-paper mobile phone applications, the Group has begun shipping production quantities to supply memory card applications in the first half of 2007. It has also developed a dedicated bistable driver IC for electronic shelf label applications. Testing of this IC is underway and it will be ready for mass production by the end of this year.

For the microdisplay business, in addition to the existing VGA resolution microdisplay controller, the next-generation WVGA-resolution microdisplay controller is under development for applications in high-definition movies, stereo 3D games entertainment, and viewfinders of high-end digital cameras.

Overall, the Group believes the demand for new display applications will surge; thus it will keep researching and expanding this business to make sure it stays ahead of the competition.

Display System

This business unit focuses on developing total solutions that (i) support high-speed mobile interfaces; (ii) increase display image quality and functions; and (iii) generate high-performance multimedia features. Products in production like image processors and graphic controllers are supporting consumer applications such as MP4, GPS, digital photo frames and portable consumer products. A key, high-performance multimedia SoC introduced in the second quarter of 2007 will be able to open up additional opportunities with strategic alliances for high-volume mobile applications.

Regarding the high-speed mobile interface market, the business unit leverages its early leadership in MIPI and has started the development of next-generation driver ICs and display system controllers in collaboration with top-tier industry players.

The Group will continue to grow this business through its strong R&D team to provide high-performance, cost-effective and comprehensive solutions. The Group expects that Display System will see sales growth in the second half of 2007.

Directors' Interest

As at 30 June 2007, 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 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 2007						
Name of Director		Directly Owned		Beneficially Owned	Total	% of the issued shares capital of the Company
		Shares	Options^(vi)	Shares		
Sun, Patrick	Long position	—	1,800,000	—	1,800,000	0.07%
	Short position	—	—	—	—	—
Choy Kwok Hung, Patrick	Long position	1,100,000	1,500,000	—	2,600,000	0.10%
	Short position	—	—	—	—	—
Kao Kuen, Charles	Long position	300,000	1,500,000	—	1,800,000	0.07%
	Short position	—	—	—	—	—
Wong Yuet Leung, Frankie	Long position	—	1,500,000	—	1,500,000	0.06%
	Short position	—	—	—	—	—
Chang Ching Yi, Steven	Long position	1,800,000	1,800,000	—	3,600,000	0.14%
	Short position	—	—	—	—	—
Lam Pak Lee	Long position	800,000	1,800,000	—	2,600,000	0.10%
	Short position	—	—	—	—	—
Leung Kwong Wai	Long position	115,876,001	5,200,000	6,684,000 ⁽ⁱ⁾	127,760,001	5.13%
	Short position	—	—	6,684,000 ⁽ⁱ⁾	6,684,000	0.27%
Huang Hsing Hua	Long position	8,356,000	2,100,000	1,324,000 ⁽ⁱⁱ⁾	11,780,000	0.47%
	Short position	—	—	1,324,000 ⁽ⁱⁱ⁾	1,324,000	0.05%
Lai Woon Ching	Long position	27,877,600	1,800,000	1,524,000 ⁽ⁱⁱⁱ⁾	31,201,600	1.25%
	Short position	—	—	1,524,000 ⁽ⁱⁱⁱ⁾	1,524,000	0.06%
Lam Shun Fu, Percy	Long position	—	2,300,000	1,620,000 ^(iv)	3,920,000	0.16%
	Short position	—	—	1,620,000 ^(iv)	1,620,000	0.07%
Lo Wai Ming	Long position	29,664,000	2,100,000	2,324,000 ^(v)	34,088,000	1.37%
	Short position	—	—	2,324,000 ^(v)	2,324,000	0.09%

Notes:

- (i) Out of the 6,684,000 shares held by Mr. Leung:
 - (a) 3,000,000 shares are subject to lock-up and shall be released on 8 April 2008. These shares are held by HSBC International Trustee Limited as custodian (the "Custodian") for Mr. Leung under the Pre-IPO Loyalty Plan; and
 - (b) 3,684,000 shares are subject to a two year vesting period and held by HSBC International Trustee Limited as trustee (the "Trustee") for the benefit of Mr. Leung under the Share Award Plan of the Company. 1,614,000 shares, 828,000 shares and 1,242,000 shares shall be vested respectively on 28 April 2008, 28 June 2008 and 28 June 2009.
- (ii) Out of the 1,324,000 shares held by Mr. Huang:
 - (a) 800,000 shares are subject to lock-up and shall be released on 8 April 2008. These shares are held by the Custodian for Mr. Huang under the Pre-IPO Loyalty Plan; and
 - (b) 524,000 shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Huang under the Share Award Plan of the Company. 204,000 shares, 128,000 shares and 192,000 shares shall be vested respectively on 28 April 2008, 28 June 2008 and 28 June 2009.

Directors' Interest (continued)

- (iii) Out of the 1,524,000 shares held by Mr. Lai:
 - (a) 1,000,000 shares are subject to lock-up and shall be released on 8 April 2008. These shares are held by the Custodian for Mr. Lai under the Pre-IPO Loyalty Plan; and
 - (b) 524,000 shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Lai under the Share Award Plan of the Company. 204,000 shares, 128,000 shares and 192,000 shares shall be vested respectively on 28 April 2008, 28 June 2008 and 28 June 2009.
- (iv) 1,620,000 shares held by Mr. Lam are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Lam under the Share Award Plan of the Company. 520,000 shares, 128,000 shares, 780,000 shares and 192,000 shares shall be vested respectively on 28 December 2007, 28 June 2008, 28 December 2008 and 28 June 2009.
- (v) Out of the 2,324,000 shares held by Mr. Lo:
 - (a) 1,800,000 shares are subject to lock-up and shall be released on 8 April 2008. These shares are held by the Custodian for Mr. Lo under the Pre-IPO Loyalty Plan; and
 - (b) 524,000 shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Lo under the Share Award Plan of the Company. 204,000 shares, 128,000 shares and 192,000 shares shall be vested respectively on 28 April 2008, 28 June 2008 and 28 June 2009.
- (vi) These are options granted under the Share Option Scheme (see section headed "Share Option Scheme").

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.

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 2007, the Company had been notified of the following corporations which had 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	Long/Short Position	Number of shares held	% of the issued share capital of the Company
Morgan Stanley Investment Management Limited	Investment Manager	Long	167,766,500	6.74%
State Street Corporation	Interest of Controlled Corporation	Lending Pool	221,781,735	8.91%
TIAA-CREF Investment Management, LLC	Beneficial Owner	Long	170,527,237	6.85%

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 2007.

Share Option Scheme

Share options have been granted to Directors and senior management of the Group under the Share Option Scheme approved by shareholders of the Company at an Extraordinary General Meeting on 25 February 2004. The purpose of the Share Option Scheme is to provide the participants who may be executive directors, non-executive directors, independent non-executive directors, employees of any member of the Group, any advisers, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners or service providers of any member of the Group who as the Board of Directors, in its sole discretion, may consider, will contribute to the Group, with opportunity to acquire proprietary interests in the Company so as to encourage such participants to work towards enhancing the value of the Company and its shares for the benefits of the Group with a flexible mean of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such participants. The terms of the Share Option Scheme are in accordance with the provisions of the 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 Directors 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 market price of the shares on the date of the grant. Each option gives the holder the right to subscribe for one share of the Company.

Options to subscribe for 22,600,000 new shares of the Company were granted by the Company to Directors, senior management and employees of the Group under the Share Option Scheme on 7 February 2007. Conditional upon the level of achievement of the "2007 Key Drivers for Business Performance" applicable to each grantee, the options are exercisable (40% starting 1 April 2009 and lapse on 1 April 2011; 60% starting 1 April 2010 and lapse on 1 April 2012) at the exercise price of HK\$1.43 per share.

Options to subscribe for 6,300,000 new shares of the Company were granted by the Company to Directors and senior management of the Group under the Share Option Scheme on 28 June 2007. The options are exercisable at the exercise price of HK\$1.118 per share, starting 1 July 2008 and lapse on 1 July 2010.

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.

Details of the share options outstanding as at 30 June 2007 which have been granted under the Share Option Scheme are as follows:

Name of Participants	Number of options				Held on 30 June 2007	Exercise price HK\$	Grant date	Exercise period	
	Held on 1 January 2007	Granted during the period	Exercised during the period	Cancelled during the period				Begins	Ends
Independent Non-executive Directors									
Sun, Patrick	800,000	–	–	–	800,000	2.695	14 June 2005	1 July 2006	30 June 2008
	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
	1,300,000	500,000	–	–	1,800,000				
Choy Kwok Hung, Patrick	500,000	–	–	–	500,000	2.695	14 June 2005	1 July 2006	30 June 2008
	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	500,000	–	–	1,500,000				
Kao Kuen, Charles	500,000	–	–	–	500,000	2.695	14 June 2005	1 July 2006	30 June 2008
	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	500,000	–	–	1,500,000				
Wong Yuet Leung, Frankie	500,000	–	–	–	500,000	2.695	14 June 2005	1 July 2006	30 June 2008
	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	500,000	–	–	1,500,000				
Subtotal	4,300,000	2,000,000	–	–	6,300,000				

Share Option Scheme (continued)

Name of Participants	Number of options				Held on 30 June 2007	Exercise price HK\$	Exercise period		
	Held on 1 January 2007	Granted during the period	Exercised during the period	Cancelled during the period			Grant Date	Begins	Ends
Executive and Non-executive Directors									
Chang Ching Yi, Steven	800,000	–	–	–	800,000	2.695	14 June 2005	1 July 2006	30 June 2008
	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
	1,300,000	500,000	–	–	1,800,000				
Lam Pak Lee	800,000	–	–	–	800,000	2.695	14 June 2005	1 July 2006	30 June 2008
	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
	1,300,000	500,000	–	–	1,800,000				
Leung Kwong Wai	800,000	–	–	–	800,000	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	–	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	–	1,360,000	–	–	1,360,000	1.430	7 February 2007	1 April 2009	31 March 2011
	–	2,040,000	–	–	2,040,000	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
	1,300,000	3,900,000	–	–	5,200,000				
Huang Hsing Hua	300,000	–	–	–	300,000	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	–	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	–	320,000	–	–	320,000	1.430	7 February 2007	1 April 2009	31 March 2011
	–	480,000	–	–	480,000	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
	800,000	1,300,000	–	–	2,100,000				
Lai Woon Ching	300,000	–	–	–	300,000	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	–	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	–	200,000	–	–	200,000	1.430	7 February 2007	1 April 2009	31 March 2011
	–	300,000	–	–	300,000	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
	800,000	1,000,000	–	–	1,800,000				
Lam Shun Fu, Percy	–	600,000	–	–	600,000	1.430	7 February 2007	1 April 2009	31 March 2011
	–	900,000	–	–	900,000	1.430	7 February 2007	1 April 2010	31 March 2012
	–	800,000	–	–	800,000	1.118	28 June 2007	1 July 2008	30 June 2010
	–	2,300,000	–	–	2,300,000				
Lo Wai Ming	300,000	–	–	–	300,000	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	–	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	–	320,000	–	–	320,000	1.430	7 February 2007	1 April 2009	31 March 2011
	–	480,000	–	–	480,000	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
	800,000	1,300,000	–	–	2,100,000				
Subtotal	6,300,000	10,800,000	–	–	17,100,000				

Name of Participants	Number of options				Held on 30 June 2007	Exercise price HK\$	Grant Date	Exercise period	
	Held on 1 January 2007	Granted during the period	Exercised during the period	Cancelled during the period				Begins	Ends
Other employees									
Others	500,000	–	–	–	500,000	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	–	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	–	6,240,000	–	(360,000)	5,880,000	1.430	7 February 2007	1 April 2009	31 March 2011
	–	9,360,000	–	(540,000)	8,820,000	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
Subtotal	1,000,000	16,100,000	–	(900,000)	16,200,000				
Total	11,600,000	28,900,000	–	(900,000)	39,600,000				

Except for 900,000 options were cancelled, no option under the Share Option Scheme lapsed or exercised during the period.

Valuation of options

According to the Black-Scholes Model, the fair value of the options granted during the period together with the key parameters used in the Model are:

Date of Grant	28 June 2007	7 February 2007
Option value	US\$262,000 (HK\$2,040,000)	US\$975,000 (HK\$7,587,000)
Share price at date of grant (HK\$)	1.110	1.420
Exercise price (HK\$)	1.118	1.430
Expected life of options	2 years	40% at 4.25 years 60% at 5.25 years
Annualized volatility	61.14%	63.09%
Annual risk-free interest rate	4.305%	40% of the options with 4.165% 60% of the options with 4.197%
Expected dividend paid out rate	5.41%	11.97%

Corporate Governance & 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, Non-executive Directors (“NEDs”) are appointed for a specific term up to 30 June 2008, subject to re-election according to the procedures set out in the Company’s Articles of Association. NEDs are encouraged to take educational courses at the expense of the Group on duties of the Board and corporate governance. The above-mentioned practices were well implemented and basically follow the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules on the Stock Exchange which came into effect on 1 January 2005.

Code on Corporate Governance Practices

The Company has complied with all the Code Provisions set out in the Appendix 14 of the Listing Rules. As at 30 June 2007, Audit Committee, Remuneration Committee, Nomination Committee and Investment Committee had been formed with their respective terms of reference in force.

During the first half of 2007, there have been a number of changes in the Board.

(a) Effective from 1 January 2007:

- Dr. Lam Pak Lee resigned as Non-executive Chairman of the Board but remained on the Board as a Non-executive Director;
- Mr. Sun, Patrick was appointed as Non-executive Chairman of the Board; and
- Mr. Wong Yuet Leung, Frankie was re-designated as Independent Non-executive Director.

(b) Effective from 1 July 2007, Mr. Sheu Wei Fu was appointed as Alternate Director to Dr. Lam Pak Lee; and

(c) Effective from 1 January 2007, the number of Independent Non-executive Directors (“INED”) of the Company increased from a minimum of three pursuant to Listing Rule 3.10 to four with Mr. Wong Yuet Leung, Frankie being re-designated from NED to INED. The percentage of INED in the Board becomes over one-third which is in compliance with the Recommended Best Practices (A.3.2 of the Appendix 14 of the Listing Rules).

As at 6 September 2007, the composition of the Board of the Company was as follows:

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

On 24 April 2007, the Asset magazine named the Company as one of the Rising Stars of good corporate governance in Asia in the Asset magazine’s annual Corporate Governance Rankings 2007.

Compliance with the Model Code

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 2007.

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

Except for the repurchase of the Company’s own ordinary shares as set out in note 14 to the Interim Financial Statements, 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. Shares were repurchased during the period to enhance the net asset value.

Audit Committee

The Audit Committee is composed of three INEDs. The Audit Committee, alongside the internal audit team, has reviewed with the management and the independent auditor for the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited Interim Financial Statements for the six months ended 30 June 2007.

Investor Relations and Communications

The Group recognizes the rights of shareholder 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 2007, the Group participated in three investor related events, namely “JPMorgan Asia Pacific Tech Conference 2007”, “Morgan Stanley China Tech Corp Day” and “Nomura Annual Semiconductor Pan-Asian Conference”. Immediately after the annual results announcement in March, the Group held a couple of one-on-one meetings in Hong Kong organized by BNP.

Apart from the above, the Group held more than 80 meetings and conference calls with investors and analysts in the first half of 2007. 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.

The Group’s communication effort was also being recognized globally as it won a Gold Award in the Galaxy Awards 2007 for the Company’s 2006 Annual Reports. The awards competition is founded in 1987 with the principal purpose of advancing the arts and sciences of communications in an international arena.

Stakeholders of the Company are recommended to visit the Group’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 financial information of the Company required to be disclosed under paragraphs 46(1) to 46(6) (both paragraphs inclusive) of Appendix 16 of the Listing Rules has been published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.solomon-systech.com) respectively on 6 September 2007.

On behalf of the Board

Solomon Systech (International) Limited

LEUNG Kwong Wai

Managing Director

Hong Kong, 6 September 2007

Corporate and Shareholder Information

Financial Calendar

Financial Year End	31 December
Interim Results Announced	6 September 2007
Ex-dividend Date	20 September 2007
Closure of Register of Members	24 - 28 September 2007
Payment of Interim Dividend	10 October 2007

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	2,489,604,351 (as at 30 June 2007)

Index Constituent

Hang Seng Composite Index
MSCI Small Cap Index

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FCMA, FHKCPA, ACS, ACIS

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Independent Auditor

PricewaterhouseCoopers

Solicitors

Richards Butler

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