Notes to the Accounts

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 21st 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").

Pursuant to a Group reorganisation, which was completed on 23rd December 2003 (the "Reorganisation"), the Company became the holding company of the subsidiaries comprising the Group. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 8th April 2004 (the "Listing Date"). Further details of the Reorganisation are set out in the prospectus of the Company dated 25th March 2004.

The Reorganisation has been reflected in the accounts by regarding the Group comprising the Company and its subsidiaries as a continuing entity. Accordingly, the accounts for the year ended 31st December 2003 have been prepared using the merger basis of accounting and the consolidated results include the results of the subsidiaries comprising the Group as if the current structure had been in existence throughout the period presented.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statement for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of Directors; or to cast majority of votes at the meetings of the board of Directors.

2. Principal accounting policies (continued)

(a) Group accounting (continued)

(i) Consolidation (continued)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

(ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill (net of amortisation) on acquisition.

Unrealised gains on transactions between the Group and its associated company are eliminated to the extend of the Group's interest in the associated company; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(b) Intangibles

(i) Patents and intellectual property

Expenditure on acquired patents and intellectual property is capitalised and amortised using the straight-line method over their expected useful lives of five years.

(ii) Goodwill

Goodwill comprises: (a) the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries/ associated company; and (b) the excess of the costs of an acquisition over the fair value ascribed to the acquired business including patents and intellectual property, at the date of acquisition.

Goodwill is recognised as an asset and amortised using straight-line method over their estimated useful lives. Goodwill arising on acquisitions of business including patents and intellectual property is amortised over 5 years. Goodwill arising on other acquisitions is generally amortised over 2-5 years.

2. Principal accounting policies (continued)

(b) Intangibles (continued)

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(c) Fixed assets

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20% or over the unexpired lease period, whichever is shorter
Furniture, fixtures and office equipment	33.33%
Machinery and laboratory equipment	12.50% to 33.33%
Motor vehicles	33.33%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(ii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(d) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

2. Principal accounting policies (continued)

(e) Assets under leases

(i) Finance leases
Leases that substantially transfer to the Group all the rewards and risks of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases
Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials and sub-contracting charges. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

2. Principal accounting policies (continued)

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(j) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over their estimated useful lives to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(k) Provisions

Provision are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus plans

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

2. Principal accounting policies (continued)

(l) Employee benefits (continued)

(iv) Equity compensation benefits

Under the Pre-IPO Share Reward Plan, Pre-IPO Loyalty Plan and Share Award Plan, employees of the Group are entitled to receive shares in the Company. The new shares for the benefit of the employees have been created by capitalising the Company's retained earnings to pay up consideration in full for the new shares issued.

Under the Pre-IPO Share Option Scheme and Share Option Scheme, when the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Revenue recognition

Revenue from the sale of products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time of shipment/delivery.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

2. Principal accounting policies (continued)

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditures comprise additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditures are where the assets are located.

3. Turnover, revenues and segment information

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

	Group	
	2004 **US$'000**	2003 US$'000
Turnover		
Sale of goods	**308,238**	109,339
Other revenues		
Bank interest income	**395**	67
Other income	**65**	–
	460	67
Total revenues	**308,698**	109,406

(a) Business segment

The Group has been operating in one single business segment, i.e. the research, design, development and distribution of ICs.

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical presence of customers. Segment assets and capital expenditures are based on the geographical location of the assets.

3. Turnover, revenues and segment information (continued)

(b) *Geographical segments* (continued)

(i) Segment revenue

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

(ii) Capital expenditures by location of assets

	Group	
	2004	2003
	US$'000	US$'000
Hong Kong SAR	**2,965**	3,234
China	**1,456**	1,298
Taiwan	**3,312**	619
Others	**262**	–
	7,995	5,151

3. Turnover, revenues and segment information (continued)

(b) Geographical segments (continued)

(iii) Segment assets by location of assets

	Group	
	2004	2003
	US$'000	US$'000
Hong Kong SAR	**208,186**	67,799
Taiwan	**35,080**	10,009
Others	**6,423**	3,795
	249,689	81,603

Note: Others comprise China, Japan, Singapore and United States of America.

4. Operating profit

	Group	
	2004 **US$'000**	2003 US$'000
Operating profit is stated after crediting and charging the following:		
Crediting		
Gain on disposal of other investment	**180**	–
Charging		
Loss on disposal of fixed assets	**–**	1
Auditors' remuneration	**108**	28
Depreciation of owned fixed assets	**3,932**	1,089
Depreciation of leased fixed assets	**5**	2
Operating leases for land and buildings	**490**	343
Amortisation of patents and intellectual property included in research and development costs (note 14)	**675**	900
Amortisation of goodwill included in administrative expenses (note 15)	**291**	317
Staff costs (excluding Directors' emoluments) (note 6)	**10,868**	10,414
Net exchange losses	**156**	77
Provision for doubtful debts	**1,174**	198
Provision for obsolete inventories	**4,232**	768

5. Finance costs

	Group	
	2004 **US$'000**	2003 US$'000
Interest element of finance leases	**2**	2

6. Staff costs

	Group	
	2004 **US$'000**	2003 US$'000
Salaries and wages	**6,068**	4,774
Discretionary bonus	**3,781**	2,059
Pension costs — defined contribution plans	**313**	184
Share purchase cost for employees	**–**	2,652
Other staff benefits	**706**	745
	10,868	10,414

7. Taxation

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

	Group	
	2004 **US$'000**	2003 US$'000
Hong Kong profits tax	**13,385**	4,823
(Over)/under provisions in prior years	**(186)**	152
Deferred taxation (note 24)	**(558)**	61
Taxation charge	**12,641**	5,036

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the year. No provision for income tax has been provided for subsidiaries operating outside Hong Kong as they did not generate any assessable profits in respective jurisdictions during the year (2003: Nil).

The taxation on the Group's profit before taxation differs from theoretical amount that would arise using the taxation rate of Hong Kong, the Group's principal place of operation, as follows:

	Group	
	2004 **US$'000**	2003 US$'000
Profit before taxation	**71,808**	27,721
Calculated at a taxation rate of 17.5% (2003: 17.5%)	**12,566**	4,851
Income not subject to tax	**(89)**	(11)
Expenses not deductible for taxation purposes	**72**	151
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	**–**	49
Tax losses not recognised	**278**	–
(Over)/under provisions in prior years	**(186)**	152
Others	**–**	(156)
Taxation charge	**12,641**	5,036

8. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to extent of profit of US$50,763,000 (2003: US$18,408,000).

9. Dividends

	2004 US$'000	2003 US$'000
(a) Dividend attributable to the previous year, approved and paid by Solomon Systech Limited ("SSL"), a wholly owned subsidiary of the Company, to its then shareholder during the year:		
2002 final, paid, of HK$0.26 (approximately 3.4 US cents) per ordinary share (Note (i))	**–**	6,122
(b) Dividend declared by the Company:		
2004 first interim, attributable to the results of 2003, paid, of HK$0.066 (approximately 0.85 US cents) per ordinary share (Note (ii))	**16,039**	–
2004 second interim, paid, of HK$0.026 (approximately 0.34 US cents) per ordinary share (Note (iii))	**8,360**	–
2004 final, proposed, of HK$0.12 (approximately 1.54 US cents) per ordinary share (Note (iv))	**38,655**	–
	63,054	–
Total dividends paid during the year	**24,399**	6,122

Notes:

(i) The number of SSL's shares in issue at the time of the payment of the 2002 final dividend was 183,290,271 shares.

(ii) On 3rd February 2004, the Directors declared the first interim dividend of HK$0.066 per ordinary share. The first interim dividend was paid on 1st March 2004.

(iii) On 27th July 2004, the Directors declared the second interim dividend of HK$0.026 per ordinary share . The second interim dividend was paid on 7th September 2004.

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

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$59,167,000 (2003: US$22,685,000).

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

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

11. Emoluments for Directors and five highest paid individuals

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the Directors of the Company by the Group during the year are as follows:

	2004 **US$'000**	2003 US$'000
Fees	**114**	154
Basic salaries, other allowances and benefits in kind	**621**	449
Discretionary bonus	**793**	248
Share Purchase Costs	**–**	1,031
Retirement benefit scheme contributions	**26**	23
	1,554	1,905

Discretionary bonus was determined by the remuneration committee of the Group after taking into account of the Group's profit for the year and individual employee's performance.

Directors' fees disclosed above include US$58,000 (2003: Nil) paid to independent non-executive Directors.

11. Emoluments for Directors and five highest paid individuals
(continued)

(a) *Directors' emoluments* (continued)

The emoluments of the Directors for the company fell within the following band:

	Number of directors	
	2004	2003
Nil to HK$1,000,000 (approximately US$129,000)	**6**	2
HK$1,000,001 (approximately US$129,000) to HK$1,500,000 (approximately US$193,000)	**–**	1
HK$1,500,001 (approximately US$193,000) to HK$2,000,000 (approximately US$257,000)	**1**	–
HK$2,000,001 (approximately US$257,000) to HK$2,500,000 (approximately US$322,000)	**2**	1
HK$2,500,001 (approximately US$322,000) to HK$3,000,000 (approximately US$386,000)	**–**	1
HK$5,000,001 (approximately US$643,000) to HK$5,500,000 (approximately US$707,000)	**1**	–
HK$7,500,001 (approximately US$965,000) to HK$8,000,000 (approximately US$1,029,000)	**–**	1
	10	6

During the year, 5,300,000 (2003 : Nil) options were granted to the Directors of the Group under the Pre-IPO Option Scheme approved by the shareholders at an Extraordinary General Meeting on 25th February 2004. Since these options were granted on 19th March 2004 which is prior to the listing, the Directors are in the opinion that the fair value of the options granted cannot be estimated reliably as there was no active market price for the Company's shares on the date of grant. For details of options granted and exercised during the year, please refer to note 25 to the accounts.

In addition, during the year, 26,400,000 shares from the Pre-IPO Loyalty Plan and 25,100,000 shares from the Pre-IPO Share Reward Plan of the Company were received by the Directors of the Company. The Group's equity compensation plans are described in note 29.

None of the Directors of the Company waived any emoluments during the year.

11. Emoluments for Directors and five highest paid individuals (continued)

(b) Five highest paid individuals

	Number of individuals	
	2004	2003
Directors	**4**	3
Employees	**1**	2
	5	5

The five individuals whose emoluments were the highest in the Group during the year include four (2003: three) Directors whose emoluments are reflected in the analysis above. The amounts of emoluments paid and payable to the remaining one (2003: two) individual during the year are as follows:

	2004 US$'000	2003 US$'000
Basic salaries, other allowances and benefits in kind	**139**	470
Discretionary bonus	**83**	100
Retirement benefit scheme contributions	**6**	11
	228	581

Discretionary bonus was determined by the remuneration committee of the Group after taking into account of the Group's profit for the year and individual employee's performance.

11. Emoluments for Directors and five highest paid individuals (continued)

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
HK$1,500,001 (approximately US$193,000) to HK$2,000,000 (approximately US$257,000)	**1**	–
HK$2,000,001 (approximately US$257,000) to HK$2,500,000 (approximately US$322,000)	**–**	2
	1	2

During the year, no emoluments have been paid to the Directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2003: Nil).

12. Retirement benefit schemes

The Group's major retirement scheme is the defined contribution plan in Hong Kong.

All Hong Kong employees participate in the Mandatory Provident Fund (the "MPF scheme"), a defined contribution scheme managed by an independent trustee. Under the rules of the MPF scheme, the Group make monthly contributions to the scheme at 5% of the employees' gross earnings while each of the employee also make monthly contributions to the scheme at 5% of the employees' gross earnings, subject to a maximum of HK$1,000 per month per employee. No forfeited contribution is available to reduce the contribution payable in future years.

Employees in Singapore and the PRC participate in certain defined contribution schemes in accordance with relevant rules and regulations in respective jurisdictions. Contributions made under these schemes are not considered significant to the Group.

The Group's contribution to these defined contribution pension schemes are charged to the consolidated profit and loss account as incurred.

13. Fixed assets

Group

	Leasehold improvements US$'000	Furniture, fixtures and office equipment US$'000	Machinery and laboratory equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost					
At 1st January 2004	1,566	3,837	3,321	127	8,851
Additions	135	2,162	5,672	26	7,995
Disposals	(317)	(13)	–	–	(330)
Transfers	–	(32)	32	–	–
At 31st December 2004	1,384	5,954	9,025	153	16,516
Accumulated depreciation					
At 1st January 2004	439	2,182	705	35	3,361
Charge for the year	292	2,013	1,581	51	3,937
Disposals	(317)	(13)	–	–	(330)
Transfers	–	(6)	6	–	–
At 31st December 2004	414	4,176	2,292	86	6,968
Net book value					
At 31st December 2004	970	1,778	6,733	67	9,548
At 31st December 2003	1,127	1,655	2,616	92	5,490

At 31st December 2004, the aggregate net book value of fixed assets held by the Group under finance leases amounted to US$13,000 (2003: Nil).

14. Patents and intellectual property

	Group	
	2004 US$'000	2003 US$'000
Cost		
At 1st January and 31st December	**4,500**	4,500
Accumulated amortisation		
At 1st January	**3,825**	2,925
Amortisation charge (note 4)	**675**	900
At 31st December	**4,500**	3,825
Net book value at 31st December	**–**	675

15. Goodwill

	Group	
	2004 US$'000	2003 US$'000
Cost		
At 1st January	**933**	500
Acquisition of subsidiaries	**–**	433
At 31st December	**933**	933
Accumulated amortisation		
At 1st January	**642**	325
Amortisation charge (note 4)	**291**	317
At 31st December	**933**	642
Net book value at 31st December	**–**	291

16. Investments in subsidiaries

	Company	
	2004 US$'000	2003 US$'000
Unlisted shares, at cost	**50,016**	49,916
Due from subsidiaries	**42,485**	18,408
Due to a subsidiary	**(48)**	–

16. Investments in subsidiaries (continued)

(a) At 31st December 2004, the Company held equity interest in the following subsidiaries:

Name	Place of incorporation and operation	Principal activities	Particulars of shares held	Equity interest 2004	Equity interest 2003
Directly held:					
Solomon Systech Limited ("SSL")	Hong Kong	Research, design, development and distribution of integrated circuits	188,585,271 ordinary shares of HK$1 each	**100%**	100%
Ample Pacific Limited ("Ample")	British Virgin Islands	Investment holding	50,000 ordinary shares of US$1 each	**100%**	–
Cornway International Limited	British Virgin Islands	Investment holding	50,000 ordinary shares of US$1 each	**100%**	–
Indirectly held:					
Systech Technology China Limited ("STCL")	Hong Kong	Investment holding	10,000 ordinary shares of HK$1 each	**100%**	100%
Solomon Systech Inc. ("SSI")	United States of America	Market research	20,000 ordinary shares of US$1 each	**100%**	100%
Solomon Systech (Shenzhen) Limited ("SSSZ")	The People's Republic of China	Research, design and development of integrated circuits	HK$8,000,000 registered capital	**100%**	100%
Solomon Systech Japan Company Limited ("SSJCL")	Japan	Market research	10,000 ordinary shares of JPY1,000 each	**100%**	–
Solomon Systech Pte.Ltd. ("SSPL")	The Republic of Singapore	Research, design and development of integrated circuits	480,000 ordinary shares of S$1 each	**100%**	–

(b) All amounts due from/to subsidiaries are interest-free and unsecured.

17. Interests in an associated company

	Group	
	2004 **US$'000**	2003 US$'000
Share of net assets	**1,021**	–
Goodwill on acquisition of an associated company less amortisation	**98**	–
	1,119	–
Unlisted shares, at cost	**1,313**	–

Details of the associated company as at 31st December 2004 are as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest held directly
WE3 Technology Company Limited	Hong Kong	Research, design, development & distribution of handsets solutions	3,500,000 ordinary shares of HK$1 each	20%

18. Investment securities

	Group	
	2004 **US$'000**	2003 US$'000
Unlisted shares, at cost	**284**	848
Provision for impairment loss	**(284)**	(848)
	–	–

19. Inventories

	Group	
	2004 **US$'000**	2003 US$'000
Finished goods	**16,949**	2,285
Raw materials	**30,785**	11,842
	47,734	14,127
Less: Provision for obsolete inventories	**(5,276)**	(1,044)
	42,458	13,083

At 31st December 2004, the carrying amount of inventories that are carried at net realisable value amounted to US$1,283,000 (2003: Nil).

20. Accounts and bills receivables

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

	Group	
	2004 **US$'000**	2003 US$'000
0 - 30 days	**56,772**	17,518
31 - 60 days	**–**	3,241
61 - 90 days	**53**	49
91 - 120 days	**–**	52
121 - 365 days	**37**	–
	56,862	20,860

21. Banking facilities

At 31st December 2004, the banking facilitates of the Group amounting to approximately US$16,232,000 (2003: US$7,165,000) are secured by the pledge of bank deposits of US$2,130,000 (2003: US$3,183,000).

22. Accounts payable

The ageing analysis of trade payables is as follows:

	Group	
	2004	2003
	US$'000	US$'000
0 - 30 days	**53,618**	18,299
31 - 60 days	**624**	170
61 - 90 days	**375**	7
91 - 120 days	**36**	–
121 - 365 days	**107**	–
	54,760	18,476

23. Obligations under finance leases

	Group	
	2004	2003
	US$'000	US$'000
Wholly repayable within five years	**28**	5
Current portion	**(8)**	(4)
	20	1

At 31st December 2004, the Group's finance lease liabilities were repayable as follows:

	Group	
	2004	2003
	US$'000	US$'000
Within one year	**9**	5
In the second to fifth year	**24**	2
	33	7
Future finance charges on finance leases	**(5)**	(2)
Present value of finance lease liabilities	**28**	5
The present value of finance lease liabilities is as follows:		
Within one year	**8**	4
In the second to fifth year	**20**	1
	28	5

24. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

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

	Group	
	2004 US$'000	2003 US$'000
As at 1st January	**587**	526
Deferred taxation (credited)/charged to consolidated profit and loss account (note 7)	**(558)**	61
As at 31st December	**29**	587

The component of deferred tax liabilities recognised in the balance sheet and the movements during the year are as follows:

	Accelerated tax depreciation US$'000
At 1st January 2003	526
Charged to consolidated profit and loss account in 2003	61
At 31st December 2003 and 1st January 2004	587
Charged to consolidated profit and loss account in 2004	(558)
At 31st December 2004	29

25. Share capital and options

(a) Share Capital

	2004		2003	
	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 1st January 2004/ date of incorporation	**1,885,852,711**	**24,302**	1	0
Capitalisation of retained earnings for issue of new shares (notes (c) to (e))	**189,000,000**	**2,436**	–	–
New issue of shares (notes (f) and (g))	**430,001,640**	**5,541**	1,885,852,710	24,302
At 31st December	**2,504,854,351**	**32,279**	1,885,852,711	24,302

Notes:

(a) The Company was incorporated in the Cayman Islands on 21st November 2003 with an authorised share capital of HK$500,000,000 divided into 5,000,000,000 ordinary shares of HK$0.10 each. One subscriber share was issued at par.

(b) Under the Reorganisation which took place on 23rd December 2003 for the preparation for the listing of the Company's shares on the Stock Exchange, 1,885,852,710 ordinary shares were allotted and issued in consideration of the acquisition by the Company of the entire issued share capital of SSL credited as fully paid to the then shareholders of SSL.

(c) On 22nd March 2004, a total number of 44,000,000 shares were allotted and issued at par to HSBC International Trustee Limited ("HSBC Trustee"), as the trustee for the Company's Share Award Plan which was adopted by the board of Directors (the "Board") on 19th March 2004. The Company was authorised to capitalise a total of HK$4,400,000 from its retained earnings and to apply such sum to pay up in full the said 44,000,000 shares of the Company.

25. Share capital and options (continued)

(a) Share Capital (continued)

Notes:

(d) On 22nd March 2004, a total number of 70,000,000 shares were allotted and issued at par to Cardio Investments Limited, as the trustee for the Company's Pre-IPO Loyalty Plan which was adopted by the Board on 19th March 2004. The 70,000,000 shares were subsequently transferred to and held by HSBC Trustee, the custodian for the Pre-IPO Loyalty Plan. The Company was authorised to capitalise a total of HK$7,000,000 from its retained earnings and to apply such sum to pay up in full the said 70,000,000 shares of the Company.

(e) On 22nd March 2004, a total number of 75,000,000 shares were allotted and issued at par to HSBC Trustee under the Company's Pre-IPO share reward plan which was adopted by the Board on 19th March 2004. The Company was authorised to capitalise a total of HK$7,500,000 from its retained earnings and to apply such sum to pay up in full the said 75,000,000 shares of the Company. On 31st December 2004, 73,650,000 shares under the Pre-IPO share reward plan were vested to Directors and employees of the Group pursuant to a resolution passed on 3rd December 2004 by the Remuneration Committee of the Company to accelerate the vesting of the Shares under the Pre-IPO share reward plan.

(f) On 8th April 2004, a total number of 339,465,640 shares were issued to the public at a premium of approximately HK$1.65 for cash totalling approximately US$76,555,000. The excess of the issue price over the par value of the shares, net of share issue expenses, was credited to the share premium account of the Company.

(g) On 23rd April 2004, 90,536,000 shares were issued to the public at a premium of approximately HK$1.65 for cash totalling approximately US$20,417,000 pursuant to the exercise of over-allotment option under the IPO. The excess of the issue price over the par value of the shares, net of share issue expenses, was credited to the share premium account of the Company.

25. Share capital and options (continued)

(b) Share options

The Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") at an extraordinary general meeting held on 25 February 2004 and a meeting of the Board on 19th March 2004. The purpose of the Pre-IPO Scheme is to recognise the contribution of certain directors of members of the Group to the growth of the Group and/or to the listing of the Company's shares on the Stock Exchange.

On 19th March 2004, options to subscribe for an aggregate of 6,300,000 new Shares of the Company at the IPO Offer Price were offered by the Company to directors and senior management of the Group at a nominal consideration of HK$1.0 payable by each grantee. No further options can be offered under the Pre-IPO Scheme. These options may be exercised at any time commencing 9th April 2005 to 8th April 2009, at the exercise price of HK$1.75 per share.

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

	Number of options	
	2004	2003
At the beginning of the year	**–**	–
Granted	**6,300,000**	–
At the end of the year	**6,300,000**	–

The Share Option Scheme

The Company also adopted the Share Option Scheme (the "Scheme") 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 manufactures, 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 Scheme is to provide Participants with 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 Participants. The terms of the Scheme are in accordance with the provisions of the Chapter 17 of the Stock Exchange Listing Rules. During the year, there is no option granted, exercise or cancelled for the Scheme.

26. Reserves

(a) Group

	Group	
	2004 **US$'000**	2003 US$'000
Share premium	**86,394**	–
Merger Reserve	**2,082**	2,082
Exchange reserve	**(41)**	(1)
Retained earnings	**55,865**	23,533
	144,300	25,614

Notes:

(i) Retained earnings of the Group comprise:

	Group	
	2004 **US$'000**	2003 US$'000
Final dividend proposed	**38,655**	–
Others	**17,210**	23,533
	55,865	23,533

(ii) The merger reserve of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the share capital of the Company issued in exchange thereof.

26. Reserves (continued)

(b) Company

Details of movement of the reserves of the Group are set out on page 58 of these accounts.

	Company		
	Share premium US$'000	**Retained earnings** US$'000	**Total** US$'000
At 1st January 2004	25,614	18,408	44,022
Capitalisation of retained earnings for issue of new shares (notes 25(c) to (e))	–	(2,436)	(2,436)
Issue of ordinary shares	91,431	–	91,431
Share issue expenses	(5,037)	–	(5,037)
Dividends paid	–	(24,399)	(24,399)
Profit for the year	–	50,763	50,763
At 31st December 2004	112,008	42,336	154,344
Issue of ordinary shares	25,614	–	25,614
Profit for the year	–	18,408	18,408
At 31st December 2003	25,614	18,408	44,022

27. Consolidated cash flow statement

Reconciliation of operating profit to net cash inflow from operations

	2004 **US$'000**	2003 US$'000
Operating profit	**72,004**	27,723
Depreciation of fixed assets	**3,937**	1,091
Amortisation of patents and intellectual property	**675**	900
Amortisation of goodwill	**291**	317
Loss on disposal of fixed assets	**–**	1
Interest income	**(395)**	(67)
Operating profit before working capital changes	**76,512**	29,965
Increase in accounts and bills receivables, prepayments, deposits and other receivables	**(36,458)**	(8,291)
Increase in inventories	**(29,375)**	(8,110)
Increase in accounts payable, bills payable, accrued charges and other payables	**35,552**	13,761
Net decrease in balances due from related companies	**–**	1,781
Net cash inflow generated from operations	**46,231**	29,106

28. Commitments

(a) Capital commitment for property, plant and equipment

	Group	
	2004 US$'000	2003 US$'000
Contracted but not provided for	**470**	4,141

(b) Commitment under operating leases

At 31st December 2004, the Group had future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2004 US$'000	2003 US$'000
Not later than one year	**651**	321
Later than one year and not later than five years	**2,029**	1,405
Later than five years	**–**	151
	2,680	1,877

(c) At 31st December 2004, the Company did not have any material commitment in respect of capital expenditures and operating leases.

29. Equity compensation plans

The company has the following equity compensation plans. For details of shares allotted and option granted during the year, please refer to note 25 to these accounts.

	No. of shares
Pre-IPO Share Reward Plan (note (a))	
Issued and allotted to HSBC International Trustee Limited ("HSBC Trust")	75,000,000
Shares vested during the year	(73,650,000)
Unvested shares held by the HSBC Trustee at 31st December 2004	1,350,000
Pre-IPO Loyalty Plan (note (b))	
Issued and allotted to Cardio Investment Limited ("Cardio") as Trustee	70,000,000
Share vested during the year and transferred to HSBC Trustee as custodian	(70,000,000)
Unvested shares held by Cardio at 31st December 2004	–
Vested shares held by HSBC Trust as custodian	70,000,000
Share Award Plan (note (c))	
Issued and allotted to HSBC Trust	44,000,000
Forfeited shares transferred from the employee share reward plan of Solomon Systech Limited	2,223,520
Unvested shares held by the HSBC Trustee at 31st December 2004	46,223,520
Pre-IPO Shares Option Scheme	
Granted during the year and outstanding at 31st December 2004	6,300,000
Shares Option Scheme	
None granted during the year	

29. Equity compensation plans (continued)

Notes:

(a) The shares issued were all granted to Directors and employees of the Group. Under the original terms and condition as specified under the Pre-IPO Share Reward 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.

Pursuant to a resolution passed on 3rd December 2004 by the Remuneration Committee of the Company, the Board of Directors decided to accelerate the vesting of shares to 31st December 2004. As a result, 73,650,000 shares were vested on 31st December 2004 and transferred to eligible Directors and employees of the Group.

(b) The shares issued were all granted to Directors and employees of the Group and were fully vested to eligible Directors and employees on 1st April 2004. Under the terms and condition as specified under the Pre-IPO Loyalty Plan, 25% of the shares will be released from the custodian on each anniversary of the Listing Date.

(c) The 44,000,000 issued shares together with the forfeited shares of 2,223,520 transferred from the employee share reward plan of a subsidiary, Solomon Systech Limited, were reserved for future grant to employees. Under the terms and condition as specified under 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.

During the year, 3,670,000 shares from the pool of the Share Award Plan were granted to certain employees of the Group leaving a balance of 42,553,520 for grant to Directors and employees in 2005 and beyond.

The Hong Kong Institute of Certified Public Accountants has issued a new Hong Kong Financial Reporting Standard 2 ("HKFRS2") on Share Based Payment which is effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted the new HKFRS2 in the financial statements for the year ended 31st December 2004. The Group shall follow the HKFRS2 to account for the shares vested during 2005 and beyond at appropriate market price at the date of grant.

(d) Certain senior management and Directors of the Group were granted options to subscribe for an aggregate of 6,300,000 new shares of the Company at the exercise price of HK$1.75 per share, the IPO Offer Price. These options may be exercised at any time commencing from 9th April 2005 to 8th April 2009. No options were lapsed, cancelled or exercised during the year.

The Directors of the Group are in the opinion that it is not practicable to determine the fair value of the shares issued under the equity compensation plans as there was no active open market for the shares in the Company at the time of the issuance.

30. Approval of accounts

The accounts were approved by the board of Directors on 9th March 2005.