NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Solomon Systech (International) Limited (the "Company") and its subsidiaries (together the "Group") are fabless semiconductor companies specializing in the reseach, design, development and sales of proprietary integrated circuits.

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, Ugland 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 has been listed on the main board of the Stock Exchange since 8 April 2004.

These consolidated financial statements are presented in US dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2007.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

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

(a) *Amendments to published standards effective and new/revised standard/interpretation which are relevant to the Group's operations and are mandatroy in 2006:*

- HKAS 19 (Amendment) – Actuarial Gains and Losses, Group Plans and Disclosures
- HKAS 21 (Amendment) – New Investment in a Foreign Operation
- HKAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- HKAS 39 (Amendment) – The Fair Value Option
- HKAS 39 (Amendment) and HKFRS 4 (Amendment) – Financial Instruments: Recognition and Measurement
- HKFRS – Int 4 – Determining Whether an Arrangement Contains a Lease

The adoption of new/revised HKAS 19 (Amendment), 21 (Amendment), 39 (Amendment), HKFRS 4 (Amendment) and HKFRS – Int 4 did not result in substantial changes to the accounting policies of the Group.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) New standards, amendments to standards and interpretations relevant to the Group's operation that have been issued but are not yet effective for 2006 and have not been early adopted by the Group:

- HKAS 1 (Amendment) – Presentation of Financial Statement – Capital Disclosures
- HKFRS 7 – Financial Instruments: Disclosures
- HKFRS 8 – Operating Segments
- HK (IFRIC) – Int 7 – Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics
- 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
- HK (IFRIC) – Int 11 – HKFRS 2 — Group and Treasury Share Transactions
- HK (IFRIC) – Int 12 – Service Concession Arrangements

The new/revised HKAS 1 (Amendment), HKFRS 7, and 8, HK (IFRIC) — Int 7, 8, 9, 10, 11 and 12 will not result in substantial changes to the accounting policies of the Group.

2. Summary of significant accounting policies (continued)

2.2 Consolidation

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

(a) Subsidiaries

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

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

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

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(b) Associated companies

Associated companies are entities over which the Group have significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognized at cost.

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

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

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

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

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

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

2.5 Property, plant and equipment

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

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, 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%

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other gain - net, in the income statement.

2. Summary of significant accounting policies (continued)

2.6 Intangible assets

(a) Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates (Note 2.7).

(b) Patents and intellectual property

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

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

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impairment.

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

2.8 Financial assets

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

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, in which case they are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2.10).

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains and losses from investment securities.

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

The fair value of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, or discounted cash flow analysis refined to reflect the issuer's specific circumstances. Investments in equity instruments that do not have a quoted market price in an active market and those fair value cannot be reliably measured, are measured at cost less impairment.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement - is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.10.

2.9 Inventories

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

2. Summary of significant accounting policies (continued)

2.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and fixed deposits with maturity within 3 months or less.

2.12 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares options are shown in equity as a deduction, net of tax from the proceed.

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

2.13 Deferred income tax

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

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

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

2. Summary of significant accounting policies (continued)

2.14 Employee benefits

(a) Pension obligations

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

(b) Share-based compensation

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

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

Under the Share Award Plan, directors and employees of the Group are entitled to receive shares in the Company. The shares held under trust by HSBC International Trustee Limited for the benefit of the directors and employees, have been created by capitalising the Company's retained earnings to pay up consideration in full prior to the listing of the Company in the Stock Exchange. Detail of outstanding shares can be referred to Note 23 to the consolidated financial statements on page 92.

The Company also adopted the Share Option Scheme under which options may be granted to subscribe for the Company's shares. Please refer to Note 23 to the consolidated financial statements on pages 90 and 91 for details.

(c) Employee leave entitlements

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

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

(d) Profit-sharing and bonus plans

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

2. Summary of significant accounting policies (continued)

2.15 Provisions

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

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

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

2.16 Trade payables

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

2.17 Revenue recognition

Revenue comprises the fair value for the sale of products, net of discount and after eliminating sales within the Group. Revenue is recognized as follows:

(a) Sales of products

Sales of products are recognized on the transfer of risks and rewards of ownerships, which generally coincides with the time of shipment/delivery.

(b) Interest income

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

2.18 Leases (as the lessee)

(a) Operating lease

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

(b) Finance lease

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

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

2. Summary of significant accounting policies (continued)

2.19 Government grants

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

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

2.20 Research and development

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs with a finite useful life that have been capitalized are amortized from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

2.21 Dividend distribution

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

3. Financial risk management

3.1 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 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.

3. Financial risk management (continued)

3.2 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.

4. Critical accounting estimates and judgements

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

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

(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.

5. Segment information - Group

(a) Primary reporting format – business segment

During the year, the Group is principally engaged in the research, design, development and sales of proprietary integrated circuits ("IC").

The Group has been operating in one single business segment, i.e. the research, design, development and sales of ICs. Sales amounted to US$254,092,000 and US$394,089,000 for the years ended 31 December 2006 and 2005 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 and Japan.

(i) Sales

	2006 US$'000	2005 US$'000
Hong Kong	182,004	125,195
Taiwan	24,820	158,324
Japan	21,759	85,887
Mainland China ("China")	10,847	511
Singapore	6,814	1,046
Korea	5,832	21,467
United States of America ("U.S.A.")	609	94
Others	1,407	1,565
	254,092	394,089

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

(ii) Total assets

	2006 US$'000	2005 US$'000
Hong Kong	191,613	230,519
Taiwan	18,434	32,723
Others	11,034	7,028
	221,081	270,270

Assets are allocated based on where the assets are located. Others comprises China, Japan, Singapore, Korea and the U.S.A.

5. Segment information - Group (continued)

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

(iii) Capital expenditures

	Property, plant, and equipment		Investments in associated companies		Investments in available-for-sale financial assets	
	2006	2005	**2006**	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Hong Kong	**4,162**	5,378	**2,944**	—	**—**	—
China	**3,205**	267	**—**	—	**2,346**	—
Taiwan	**736**	341	**—**	—	**1,556**	—
Others	**772**	219	**—**	—	**—**	—
	8,875	6,205	**2,944**	—	**3,902**	—

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

6. Interest income - Group

	2006	2005
	US$'000	US$'000
Bank interest income	**6,290**	4,485

7. Expenses by nature - Group

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

	2006	2005
	US$'000	US$'000
Loss on disposal of property, plant and equipment	**85**	12
Auditor's remuneration	**138**	123
Depreciation of owned property, plant and equipment	**6,053**	4,660
Depreciation of leased property, plant and equipment	**17**	9
Operating leases for land and buildings	**794**	778
Employee benefit expenses (excluding Directors' emoluments (note 8(a))	**18,399**	16,412
Directors' emoluments (note 8(b))	**2,991**	2,608
Net exchange (gain)/loss	**(145)**	127
Provision for impairment loss of available-for-sale financial assets	**1,367**	—
Provision/(Write-back of provision) for impairment of receivables	**28**	(1,782)
Provision/(Write-back of provision) for obsolete or slow moving inventories	**2,268**	(65)

8. Employee benefit expense - Group

(a) Employee benefit expenses

	2006	2005
	US$'000	US$'000
Wages and salaries	**10,841**	8,702
Discretionary bonus	**1,665**	4,023
Equity compensation - shares	**4,469**	2,245
Pension costs - defined contribution plans [i]	**513**	440
Other staff benefits	**911**	1,002
	18,399	16,412

(i) Forfeited contribution to the defined contribution plans are utilized to reduce future contributions. During the year, there was US$14,000 contribution being forfeited.

8. Employee benefit expense - Group (continued)

(b) *Directors' emoluments*

The remuneration of every director including the equity compensation charged to the income statement per HKFRS 2 "Share-Based Payments" is set out below:

For the year ended 31 December 2006										
Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses(i) US$'000	Inducement fees US$'000	Other benefits(ii) US$'000	Employer's contribution to pension scheme US$'000	Compensation for loss of office as director US$'000	Subtotal US$'000	Equity Compensation(iii) US$'000	Total US$'000
Leung Kwong Wai	—	226	193	—	60	10	—	489	1,012	1,501
Lam Shun Fu, Percy	—	83	36	—	2	4	—	125	2	127
Huang Hsing Hua	—	117	41	—	11	6	—	175	159	334
Lai Woon Ching	—	131	41	—	2	6	—	180	159	339
Lo Wai Ming	—	128	41	—	2	6	—	177	159	336
Lam Pak Lee	25	—	—	—	—	—	—	25	40	65
Chang Ching Yi, Steven	22	—	—	—	—	—	—	22	40	62
Wong Yuet Leung, Frankie	24	—	—	—	—	—	—	24	29	53
Choy Kwok Hung, Patrick	27	—	—	—	—	—	—	27	29	56
Kao Kuen, Charles	22	—	—	—	—	—	—	22	29	51
Sun, Patrick	27	—	—	—	—	—	—	27	40	67
Total	147	685	352	—	77	32	—	1,293	1,698	2,991

For the year ended 31 December 2005										
Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses(i) US$'000	Inducement fees US$'000	Other benefits(ii) US$'000	Employer's contribution to pension scheme US$'000	Compensation for loss of office as director US$'000	Subtotal US$'000	Equity Compensation(iii) US$'000	Total US$'000
Leung Kwong Wai	—	226	529	—	51	10	—	816	443	1,259
Lam Shun Fu Percy	—	—	—	—	—	—	—	—	—	—
Huang Hsing Hua	—	115	122	—	12	5	—	254	76	330
Lai Woon Ching	—	129	122	—	2	6	—	259	82	341
Lo Wai Ming	—	125	122	—	2	6	—	255	84	339
Lam Pak Lee	19	—	—	—	—	—	—	19	44	63
Chang Ching Yi, Steven	19	—	—	—	—	—	—	19	44	63
Wong Yuet Leung, Frankie	19	—	—	—	—	—	—	19	28	47
Choy Kwok Hung, Patrick	23	—	—	—	—	—	—	23	28	51
Kao Kuen, Charles	23	—	—	—	—	—	—	23	28	51
Sun, Patrick	23	—	—	—	—	—	—	23	41	64
Total	126	595	895	—	67	27	—	1,710	898	2,608

8. Employee benefit expense - Group (continued)

(b) Directors' emoluments (continued)

(i) 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.

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

(iii) This represents the amount charged to income statement per requirement under HKFRS 2. Equity compensation granted in prior periods with vesting term extended into the year will impact the current year.

(c) Equity compensation to directors

More details for the Equity Compensation Scheme can be referred to Note 23 to the consolidated financial statements. Details of the share options and shares granted to each of the directors and their corresponding fair value are listed as below:

	2006				2005			
Name of Director	No. of Share Options Granted [1] (in thousand)	Fair value of the share option at Grant Date [3] US$'000	No. of Shares Granted [2] (in thousand)	Fair Value of the share at Grant Date [3] US$'000	No. of Share Options Granted [4] (in thousand)	Fair Value at Grant Date [3] US$'000	No. of Shares Grant [5] (in thousand)	Fair Value at Grant Date [3] US$'000
Leung Kwong Wai	500	20	2,690	1,161	800	66	2,600	886
Lam Shun fu, Percy	—	—	1,300	204	—	—	—	—
Huang Hsing Hua	500	20	340	147	300	25	420	143
Lai Woon Ching	500	20	340	147	300	25	420	143
Lo Wai Ming	500	20	340	147	300	25	420	143
Lam Pak Lee	500	20	—	—	800	66	—	—
Chang Ching Yi, Steven	500	19	—	—	800	66	—	—
Wong Yuet Leung, Frankie	500	19	—	—	500	41	—	—
Choy Kwok Hung, Patrick	500	19	—	—	500	41	—	—
Kao Kuen, Charles	500	19	—	—	500	41	—	—
Sun, Patrick	500	19	—	—	800	66	—	—
Total	5,000	195	5,010	1,806	5,600	462	3,860	1,315

1. 5,000,000 share options were granted to the directors of the Group on 28 June 2006 under the Share Option Scheme. The share options can be exercised commencing from 1 July 2007.

2. A total of 5,010,000 shares under the Share Award Plan of the Company were granted to the Executive Directors of the Company during the year. 3,710,000 shares were granted on 27 April 2006 of which 1,484,000 shares (40% of the 3,710,000) will be vested on 28 April 2007 and 2,226,000 shares (60% of the 3,710,000) will be vested on 28 April 2008. The other 1,300,000 shares were granted on 27 December 2006 of which 520,000 shares (40% of the 1,300,000) will be vested on 27 December 2007 and 780,000 shares (60% of the 1,300,000) will be vested on 27 December 2008.

3. These represent the full fair value at grant date to be amortized in accordance to the vesting terms of the Share Option Scheme and may differ from the total charge to the income statement of the corresponding year.

4. 5,600,000 share options were granted to the directors of the Group on 14 June 2005 under the Share Option Scheme. The share options can be exercised commencing from 1 July 2006.

5. 3,860,000 shares from the Share Award Plan of the Company were granted to the Executive Directors of the Company on 7 June 2005. 1,544,000 shares (40% of the total) were vested on 7 June 2006 and 2,316,000 shares (60% of the total) will be vested on 7 June 2007.

8. Employee benefit expense - Group (continued)

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year include four (2005: three) directors whose emoluments are reflected in the analysis above. The amount of emolument paid and payable to the remaining one (2005: two) individual during the year is as follows:

	2006	2005
Number of individuals (excluding directors)	1	2

	2006 US$'000	2005 US$'000
Basic salaries, other allowances and benefits in kind	130	225
Discretionary bonus	24	154
Employer's contribution to pension scheme	6	10
	160	389
Equity compensation [1]	196	334
	356	723

(1) This represents the amount charged to income statement per HKFRS 2's requirement.

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
US$350,001 to US$400,000	1	1
US$300,001 to US$350,000	—	1
US$250,001 to US$300,000	—	—
	1	2

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

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 (2005: Nil).

9. Finance costs - Group

	2006 US$'000	2005 US$'000
Interest element of finance leases	1	2

10. Taxation - Group

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2006 US$'000	2005 US$'000
Current taxation:		
Hong Kong profits tax	5,654	15,869
Overseas profits tax paid/(refunded)	52	(17)
Under/(over) provision in prior years	218	(635)
Deferred taxation (note 27)	253	545
	6,177	15,762

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

	2006 US$'000	2005 US$'000
Profit before tax	28,595	92,016
Tax calculated at a taxation rate of 17.5% (2005: 17.5%)	5,004	16,103
Income not subject to tax	(1,518)	(1,779)
Expenses not deductible for taxation purposes	2,517	1,773
Utilization of previously unrecognized tax losses	(167)	—
Tax losses not recognized	123	300
Under/(over) provision in prior years	218	(635)
Taxation expense	6,177	15,762

The Company has tax losses in Hong Kong of approximately US$ 48,000 (2005: US$ 1,004,000) that are available indefinitely for offsetting against future taxable profit. Deferred tax asset has not been recognized in respect of these losses as the amount is insignificant.

11. Profit attributable to shareholders

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to extent of profit of US$24,122,000 (2005: US$67,675,000).

12. Dividends

		2006 US$'000	2005 US$'000
(a)	Final dividend attributed to the year:		
	2006 final dividend, proposed, of HK$0.04 (approximately 0.51 US cents) per ordinary share [i]	12,869	—
	2005 final dividend, paid, of HK$0.15 (approximately 1.93 US cents) per ordinary share [ii]	—	48,540
	Less : Company's share of dividends paid on the shares held by a special purpose entity of the Group	—	(658)
		12,869	47,882
(b)	Interim dividend declared and paid by the Company during the year:		
	2006 interim dividend, paid, of HK$0.02 (approximately 0.26 US cents) per ordinary share [iii]	6,467	—
	2005 interim dividend, paid, of HK$0.04 (approximately 0.51 US cents) per ordinary share	—	12,912
	Less : Company's share of dividends paid on the shares held by a special purpose entity of the Group	(94)	(242)
		6,373	12,670
	Dividend attributed to the year	19,336	61,452

(i) At a meeting held on 26 March 2007, the Directors proposed a final dividend of HK$0.04 (approximately 0.51 US cents) per ordinary share. The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

(ii) On 13 March 2006, the Directors proposed a final dividend of HK$0.15 (approximately 1.93 US cents) per ordinary share. The final dividend was paid on 12 May 2006.

(iii) On 3 August, 2006, the Directors declared an interim dividend of HK$0.02 (approximately 0.26 US cents) per ordinary share. The interim dividend was paid on 18 September 2006.

13. Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of US$22,418,000 (2005: US$76,254,000).

The basic earnings per share is based on the weighted average of 2,467,035,647 (2005: 2,445,135,773) ordinary shares in issue excluding own shares held during the year.

Diluted earnings per share information is based on 2,491,931,274 (2005: 2,473,217,108) ordinary shares which is the adjusted weighted average number of ordinary shares outstanding assuming conversion of all share options outstanding but excluding unallocated own shares held during the year. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares as calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	2005
Weighted average number of ordinary shares in issue	**2,467,035,647**	2,445,135,773
Adjustments for - allocated own shares	**24,895,627**	27,052,538
- share options	**—**	1,028,797
Weighted average number of ordinary shares for diluted earnings per share	**2,491,931,274**	2,473,217,108

14. Property, plant and equipment

	Group					Company
	Leasehold improvements US$'000	**Furniture, fixtures and office equipment** US$'000	**Machinery and laboratory equipment** US$'000	**Motor vehicles** US$'000	**Total** US$'000	**Furniture, fixtures and office equipement** US$'000
At 1 January 2005						
Cost	1,384	5,954	9,025	153	16,516	—
Accumulated depreciation	(414)	(4,176)	(2,292)	(86)	(6,968)	—
Net book amount	970	1,778	6,733	67	9,548	—
Year ended 31 December 2005						
Opening net book amount	970	1,778	6,733	67	9,548	—
Exchange differences	—	5	6	—	11	—
Additions	535	4,011	1,659	—	6,205	296
Disposals	—	(18)	—	—	(18)	—
Depreciation	(406)	(1,784)	(2,428)	(51)	(4,669)	—
Closing net book amount	1,099	3,992	5,970	16	11,077	296
At 31 December 2005						
Cost	1,919	9,884	10,690	153	22,646	296
Accumulated depreciation	(820)	(5,892)	(4,720)	(137)	(11,569)	—
Net book amount	1,099	3,992	5,970	16	11,077	296
Year ended 31 December 2006						
Opening net book amount	1,099	3,992	5,970	16	11,077	296
Exchange differences	9	(8)	(13)	—	(12)	—
Additions	250	4,173	4,452	—	8,875	385
Disposals	(24)	(56)	(5)	—	(85)	—
Depreciation	(547)	(2,826)	(2,681)	(16)	(6,070)	(208)
Closing net book amount	787	5,275	7,723	—	13,785	473
At 31 December 2006						
Cost	2,092	14,037	15,111	153	31,393	681
Accumulated depreciation	(1,305)	(8,762)	(7,388)	(153)	(17,608)	(208)
Net book amount	787	5,275	7,723	—	13,785	473

Depreciation expense of US$2,376,000 (2005: US$2,366,000) has been expensed in cost of sales, US$1,304,000 (2005: US$398,000) in research and development costs and US$2,390,000 (2005: US$1,905,000) in administrative expenses.

The net book value of Group's furniture, fixture and office equipment of US$5,275,000 includes an amount of US$13,000 (2005: US$30,000) in respect of assets held under finance leases.

15. Intangible assets - Group

	Patents and intellectual property US$'000
At 31 December 2005 and 2006	
Cost	4,500
Accumulated amortization	(4,500)
Net book amount	—

16. Investments in subsidiaries

(a) Investments in subsidiaries

	Company	
	2006 US$'000	2005 US$'000
Investments in unlisted shares, at cost	**50,128**	50,078

(b) Amounts due from/to subsidiaries

	Company	
	2006 US$'000	2005 US$'000
Amounts due from subsidiaries	**41,873**	59,062
Amount due to a subsidiary	**50**	48

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

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

16. Investments in subsidiaries (Continued)

(c) *Particulars of subsidiaries*

The following is a list of the principal subsidiaries at 31 December 2006:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held
Directly held:				
Solomon Systech Limited ("SSL")	Hong Kong, limited liability company ("LLC")	Research, design and distribution of integrated circuits, Hong Kong	188,585,271 ordinary shares of HK$1 each	100%
Ample Pacific Limited ("Ample")	The British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$1 each	100%
Cornway International Limited ("Cornway")	The British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$1 each	100%
Pac-Pacific Limited ("Pac-Pacific")	Hong Kong, LLC	Investment holding, Hong Kong	2 ordinary shares of HK$1 each	100%
Mentor Ventures Limited ("Mentor")	The British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$1 each	100%
In Achieve Limited ("In Achieve")	The British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$1 each	100%
Indirectly held:				
Systech Technology China Limited ("STCL")	Hong Kong, LLC	Investment holding, Hong Kong	10,000 ordinary shares of HK$1 each	100%
Solomon Systech Inc. ("SSI")	U.S.A., LLC	Market research, U.S.A.	20,000 ordinary shares of US$1 each	100%
Solomon Systech (Shenzhen) Limited ("SSSZ")	China, LLC	Research, design and distribution of integrated circuits, China	HK$8,000,000 registered and paid up capital	100%
Solomon Systech Japan Company Limited ("SSJCL")	Japan, LLC	Market research, Japan	10,000 ordinary shares of JPY1,000 each	100%
Solomon Systech Pte. Ltd. ("SSPL")	The Republic of Singapore, LLC	Research, design and distribution of integrated circuits, Singapore	480,000 ordinary shares of SGD1 each	100%
Jing Guang Semiconductors (Dongguan) Limited ("JGDG")	China, LLC	Manufacturing of integrated circuits, China	US$5,500,000 registered capital (US$5,318,694 paid up)	100%
Solomon Systech Taiwan Limited ("SST")	Republic of China ("Taiwan"), LLC	Market research, Taiwan	5,000,000 ordinary shares of TWD10 each	100%

17. Investments in associated companies - Group

	2006 US$'000	2005 US$'000
Beginning of the year	**903**	1,119
Acquisition of associated companies	**2,944**	—
Share of losses	**(662)**	(216)
End of the year	**3,185**	903

The Group's interests in its associated companies were as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	As at 31 December 2006 Assets US$'000	Liabilities US$'000	For the year ended 31 December 2006 Revenue US$'000	Loss US$'000	Interest held indirectly
WE3 Technology Company Limited	Hong Kong	Research, design, development & distribution of handsets solutions	8,571,950 ordinary shares of HK$1 each	3,145	589	1,066	2,233	36.7%
EPD Technology Limited	Hong Kong	Research, design, development, manufacturing & distribution of E-paper display modules	100,000 ordinary shares of HK$1 each	1,017	1,041	3	56	40%
Kitronix Limited	Hong Kong	Research, design, development, manufacturing & distribution of LCD modules	9,500,000 ordinary shares of HK$1	5,256	544	4	174	25%

18. Available-for-sale financial assets - Group

	2006 US$'000	2005 US$'000
Unlisted shares, at cost	**4,186**	284
Less: Provision for impairment loss	**(1,651)**	(284)
	2,535	—

These were no disposal of available-for-sale financial assets during the year. All the available-for-sale financial assets are unlisted equity securities.

19. Inventories - Group

	2006 US$'000	2005 US$'000
Finished goods	3,075	4,576
Raw materials and work in progress	22,657	36,847
	25,732	41,423
Less: Provision for obsolete or slow moving inventories	(7,479)	(5,211)
	18,253	36,212

The cost of inventories that is recognized as an expense and included in cost of sales amounted to US$192,867,000 (2005: US$278,529,000).

20. Trade and other receivables - Group

	2006 US$'000	2005 US$'000
Trade and bills receivables	57,707	56,146
Less: provision for impairment of receivables	(61)	(33)
Trade and bills receivables - net	57,646	56,113
Prepayments and other receivables	4,042	3,106
	61,688	59,219

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:

	2006 US$'000	2005 US$'000
0 - 30 days	41,633	53,997
31 - 60 days	12,445	1,843
61 - 90 days	2,980	273
91 - 120 days	488	—
121 -365 days	100	—
	57,646	56,113

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

	Group		Company	
	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000
Cash at bank and in hand	7,643	8,160	605	165
Short-term bank deposits[1]	102,779	111,319	82,339	65,214
Cash and cash equivalents	110,422	119,479	82,944	65,379
Short-term fixed deposits[2]	8,083	37,000	6,083	32,000
Other financial assets[3]	1,000	1,250	1,000	1,000
Fixed bank deposits[4]	2,000	5,000	—	—
	121,505	162,729	90,027	98,379

1 The effective interest rate on short-term bank deposits was 5.1% (2005: 4.0%); these deposits have an average maturity of 36 days (2005: 26 days).

2 The effective interest rate on short-term fixed deposits was 5.0% (2005: 3.5%); these deposits have an average maturity of 193 days (2005: 231 days).

3 Other financial assets represent the structured bank deposits.

4 The effective interest rate on fixed bank deposits was 6% (2005: 2.8%); these deposits have an average maturity of 424 days (2005: 375 days).

22. Share Capital

	2006		2005	
	No. of shares	US$'000	No. of shares	US$'000
Authorized:				
Ordinary shares of HK$0.10 each	5,000,000,000	64,433	5,000,000,000	64,433
Issued and fully paid:				
At 1 January	2,511,154,351	32,360	2,504,854,351	32,279
Shares repurchased	(8,500,000)	(109)	—	—
Exercise of share options (Note 23(a))	—	—	6,300,000	81
At 31 December	2,502,654,351	32,251	2,511,154,351	32,360

22. Share Capital (Continued)

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

Month/year	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate price paid	
		HK$	HK$	HK$'000	US$'000
August 2006	2,000,000	1.70	1.59	3,290	424
September 2006	2,500,000	1.49	1.35	3,525	454
December 2006	4,000,000	1.20	1.19	4,785	618
	8,500,000			11,600	1,496

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

23. Employee Compensation Scheme

(a) *The Pre-IPO Share Option Scheme*

The Company 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 19 March 2004. The purpose of the Pre-IPO Scheme is to recognize the contribution of certain directors and 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 19 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 after the Listing Date. These options may be exercised at any time commencing 9 April 2005 to 8 April 2009, at the exercise price of HK$1.75 per share.

All share options were exercised in 2005 and there was no share option outstanding under the Pre-IPO Share Option Scheme as at 31 December 2005 and 2006 respectively.

(b) *The Share Option Scheme*

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

On 28 June 2006, options to subscribe for 5,500,000 shares of the Company were granted by the Company to directors and senior management of the Group at a nominal consideration of HK$1.0 payable by each grantee. These options may be exercised at any time commencing 1 July 2007 to 30 June 2009, at the exercise price of HK$1.98 per share.

23. Employee Compensation Scheme (Continued)

(b) *The Share Option Scheme* (Continued)

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

	2006		2005	
	Exercise price in HK$ per share	No. of options (thousands)	Exercise price in HK$ per share	No. of options (thousands)
At 1 January	2.695	6,100	—	—
Granted	1.980	5,500	2.695	6,100
At 31 December		11,600		6,100

The fair value of options granted during the year determined using the Black-Scholes valuation model was US$215,000 (2005: US$503,000). The significant inputs into the model were share price of HK$1.75 (2005: HK$2.675) at the grant date, exercise price shown above, expected life of options of 2 years (2005: 2 years), expected dividend paid out rate of 10.86% (2005: 8.34%) and annual risk-free interest rate of 4.63% (2005: 3.086%). The volatility of 53.8% (2005: 58.47%), measured as the standard deviation of expected share price returns, is based on statistical analysis of daily share prices from 29 June 2005 to 28 June 2006, the option grant date.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date - 1 July	Exercise price HK$ per share	Number of options 2006 (thousands)	Number of options 2005 (thousands)
2008	2.695	6,100	6,100
2009	1.980	5,500	—
		11,600	6,100

23. Employee Compensation Scheme (Continued)

(c) The Share Award Plan

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

Under the terms and 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 31 December 2006, a net 26,632,000 shares were reserved for named employees leaving a balance of 11,585,520 for future grant to directors and employees in 2007 and beyond.

Shares held by HSBC International Trustee Limited as Trustee under the Share Award Plan

	Number of shares
At 1 January 2006	47,055,520
Shares vested during the year	(8,838,000)
At 31 December 2006	38,217,520

The following is a summary of the shares granted, vested and forfeited during the year:

	Cumulative total		**No. of shares**	
		2006	2005	2004
Granted during the year	38,110,000	**17,650,000**	16,790,000	3,670,000
Vested during the year	(10,306,000)	**(8,838,000)**	(1,468,000)	—
Forfeiture of shares granted during the year	(1,172,000)	**(1,092,000)**	(80,000)	—
	26,632,000	**7,720,000**	15,242,000	3,670,000

The Group has used HKFRS 2 in the consolidated financial statements for the year ended 31 December 2005 and 2006 to account for the equity compensation expenses of the shares granted at the date of grant at fair value.

24. Reserves

(a) Group

	Share premium US$'000	Own shares held US$'000	Merger reserve US$'000	Exchange reserve US$'000	Equity compen-sation reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2005, as previously reported	86,394	—	2,082	(41)	—	55,865	144,300
Effect of changes in accounting policies	—	(1,338)	—	—	1,616	(77)	201
At 1 January 2005, as restated	86,394	(1,338)	2,082	(41)	1,616	55,788	144,501
Exchange difference	—	—	—	17	—	—	17
Exercise of share option	1,337	—	—	—	—	—	1,337
Dividends paid, net of portion for own shares held	—	—	—	—	—	(50,599)	(50,599)
Profit for the year	—	—	—	—	—	76,254	76,254
Equity compensation	—	—	—	—	3,143	—	3,143
Equity compensation transferred to share premium	1,624	733	—	—	(1,624)	(733)	—
At 31 December 2005	89,355	(605)	2,082	(24)	3,135	80,710	174,653
At 1 January 2006	89,355	(605)	2,082	(24)	3,135	80,710	174,653
Exchange difference	—	—	—	36	—	—	36
Dividends paid, net of portion for own shares held	—	—	—	—	—	(54,255)	(54,255)
Share repurchased	(1,387)	—	—	—	—	—	(1,387)
Profit for the year	—	—	—	—	—	22,418	22,418
Equity compensation	—	114	—	—	6,167	(114)	6,167
At 31 December 2006	87,968	(491)	2,082	12	9,302	48,759	147,632

24. Reserves (Continued)

(b) Company

	Share premium US$'000	Equity compensation reserve US$'000	Retained earnings US$'000	Total US$'000
As 1 January 2005, as previously reported	112,008	—	42,336	154,344
Effect of changes in accounting policies	—	1,616	(222)	1,394
At 1 January 2005, as restated	112,008	1,616	42,114	155,738
Exercise of share options	1,337	—	—	1,337
Dividends paid	—	—	(51,567)	(51,567)
Profit for the year	—	—	67,675	67,675
Equity compensation	—	3,143	—	3,143
Equity compensation transferred to share premium	1,624	(1,624)	—	—
At 31 December 2005	114,969	3,135	58,222	176,326
At 1 January 2006	114,969	3,135	58,222	176,326
Dividends paid	—	—	(55,007)	(55,007)
Shares repurchased	(1,387)	—	—	(1,387)
Profit for the year	—	—	24,122	24,122
Equity compensation	—	6,167	—	6,167
At 31 December 2006	113,582	9,302	27,337	150,221

25. Trade and other payables - Group

	2006 US$'000	2005 US$'000
Trade payables	28,672	43,408
Accrued expenses	9,855	12,949
	38,527	56,357

At 31 December 2006, the ageing analysis of trade payables is as follows:

	2006 US$'000	2005 US$'000
0 - 30 days	28,442	42,650
31 - 60 days	50	728
61 - 90 days	180	30
	28,672	43,408

26. Obligations under finance leases - Group

	2006 US$'000	2005 US$'000
Wholly repayable within five years	**29**	39
Current portion	**(10)**	(10)
	19	29

At 31 December 2006, the Group's finance lease liabilities were repayable as follows:

	2006 US$'000	2005 US$'000
Within one year	**11**	11
In the second to fifth year	**22**	33
	33	44
Future finance charges on finance leases	**(4)**	(5)
Present value of finance lease liabilities	**29**	39
The present value of finance lease liabilities is as follows:		
Within one year	**10**	10
In the second to fifth year	**19**	29
	29	39

27. Deferred tax liabilities - Group

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

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

	Group		Company	
	2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000
Beginning of the year	**574**	29	**—**	—
Charged to consolidated income statement (Note 10)	**253**	545	**83**	—
End of the year	**827**	574	**83**	—

The components of deferred tax liabilities recognized in the consolidated balance sheet and the movements during the year are as follows:

	Group	Company
	Accelerated tax depreciation US$'000	**Accelerated tax depreciation** US$'000
At 1 January 2005	29	—
Charged to consolidated income statement in 2005	545	—
At 31 December 2005 and 1 January 2006	574	—
Charged to consolidated income statement in 2006	253	83
At 31 December 2006	827	83

28. Banking facilities - Group

At 31 December 2006, the banking facilitates of the Group amounted to US$16,232,000 (2005: US$16,232,000).

29. Cash generated from operations - Group

(a) *Reconciliation of profit before taxation to cash generated from operations*

	2006 US$'000	2005 US$'000
Profit before taxation	**28,595**	92,016
Depreciation of property, plant and equipment	**6,070**	4,669
Share of results of associated companies	**662**	216
Finance costs	**1**	2
Provision for equity compensation	**6,167**	3,143
Provision for impairment loss of available-for-sale financial assets	**1,367**	—
Loss on disposal of property, plant and equipment	**85**	12
Interest income	**(6,290)**	(4,485)
Operating profit before working capital changes	**36,657**	95,573
Increase in trade and other receivables	**(1,601)**	(1,053)
Decrease in inventories	**17,959**	6,246
Decrease in trade and other payables	**(17,830)**	(7,042)
Cash generated from operations	**35,185**	93,724

(b) *Proceeds from sale of property, plant and equipment*

	2006 US$'000	2005 US$'000
Net book amount	**85**	18
Loss on sale of property, plant and equipment	**(85)**	(12)
Proceeds from sale of property, plant and equipment	**—**	6

30. Commitments - Group

(a) *Capital commitments*

Capital expenditure for property, plant and equipment committed at the balance sheet date but not yet incurred is as follows:

	2006 US$'000	2005 US$'000
Contracted but not provided for	—	659

(b) *Operating lease commitments - where the Group is the lessee*

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

	2006 US$'000	2005 US$'000
Not later than 1 year	1,086	670
Later than 1 year and not later than 5 years	1,424	1,419
Later than 5 years	131	—
	2,641	2,089

31. Events after the balance sheet date

On 7 February 2007, options to subscribe for 22,600,000 new shares of the Company were granted by the Company to directors and employees of the Group under the Share Option Scheme. These options are exercisable at the exercise price of HK$1.43 per share, starting from 1 April 2009 and will lapse on 1 April 2012.

32. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors on 26 March, 2007.