SOLOMON SYSTECH

SOLOMON SYSTECH
Interim Report 2008

Solomon Systech (International) Limited

solutions in silicon

Contents

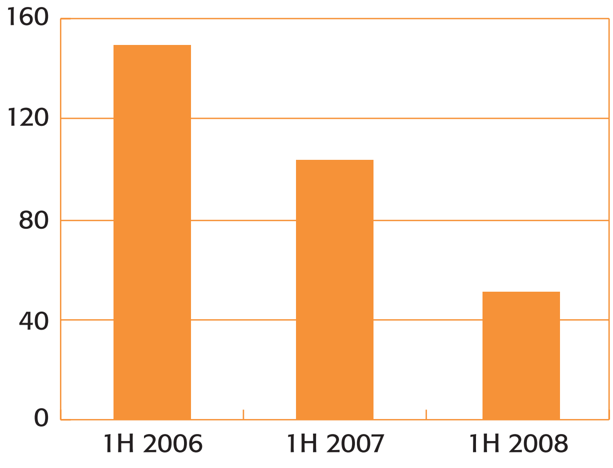
This Interim Report is printed on environmental friendly paper.

Highlights

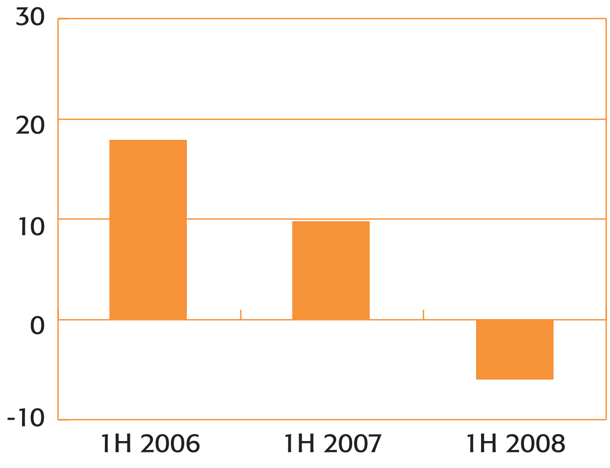
	Unaudited For the six months ended 30 June		
	2008 US$ million	2007 US$ million	Change
Sales	**50.8**	103.4	- 51%
Gross profit	**11.0**	25.0	- 56%
Net (loss)/profit	**(6.0)**	9.8	
US cent			
(Loss)/earnings per share	**(0.25)**	0.40	
Dividend per share	**–**	0.13	
Book to bill ratio	**0.90**	0.67	
	Unaudited 30 June 2008 US$ million	Audited 31 December 2007 US$ million	Change
Total assets	**189.2**	202.4	- 7%
Shareholders' funds	**160.6**	172.1	- 7%

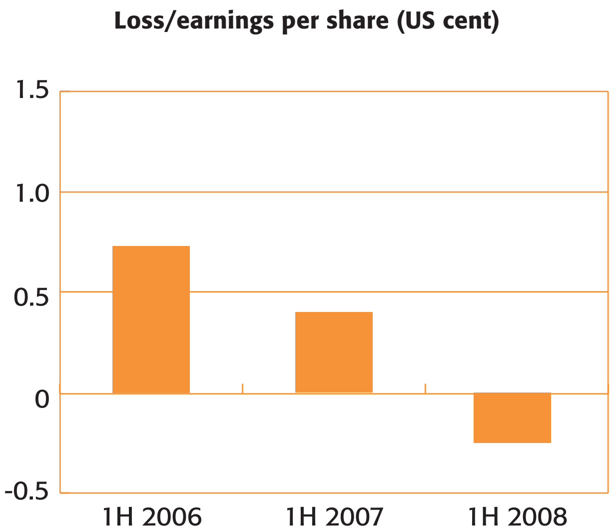
- Sales amounted to US$50.8 million
- Net loss attributable to equity holders of the Company was US$6.0 million
- Basic loss per share was 0.25 US cent (1.95 HK cents)
- Book to bill ratio for the period ended 30 June 2008 was 0.90

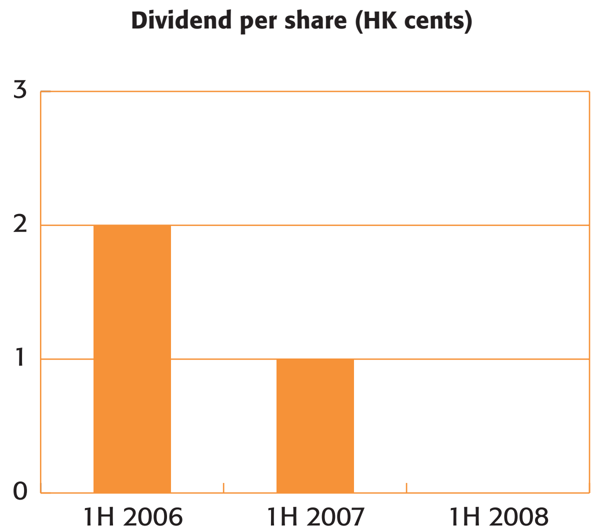
Sales (US$ million)



Net loss/profit (US$ million)







Notes:

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

Interim Dividend

The directors (the "Directors") of Solomon Systech (International) Limited (the "Company") did not declare the payment of interim dividend for the period ended 30 June 2008.

Interim Results

The Directors are pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2008 together with the comparative figures for the corresponding period as follows.

Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2008

		Unaudited	
		For the six months ended 30 June	
	Notes	**2008**	2007
		US$'000	US$'000
Sales	6	**50,774**	103,420
Cost of sales		**(39,761)**	(78,461)
Gross profit		**11,013**	24,959
Other income		**306**	650
Other gain/(loss) – net	7	**(1,360)**	–
Research and development costs		**(8,509)**	(9,210)
Selling and distribution expenses		**(1,790)**	(1,550)
Administrative expenses		**(6,957)**	(6,964)
Other operating expenses	8(b)	**(1,094)**	(16)
Operating (loss)/profit		**(8,391)**	7,869
Interest income		**2,565**	3,979
Finance costs		**(1)**	(1)
Share of results of associated companies		**(173)**	(159)
(Loss)/profit before taxation		**(6,000)**	11,688
Taxation	9	**38**	(1,879)
(Loss)/profit for the period		**(5,962)**	9,809
Attributable to:			
The Company's equity holders		**(5,957)**	9,809
Minority interest		**(5)**	–
		(5,962)	9,809
Dividends	10	**–**	3,184
(Loss)/earnings per share for (loss)/profit attributable to the Company's equity holders (expressed in US cent per share)	11		
Basic		**(0.25)**	0.40
Diluted		**(0.24)**	0.39

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Balance Sheet

As at 30 June 2008

	Notes	Unaudited 30 June 2008 US$'000	Audited 31 December 2007 US$'000
ASSETS			
Non-current assets			
Goodwill		**931**	931
Property, plant and equipment		**8,714**	8,885
Investments in associated companies		**2,715**	2,031
Available-for-sale financial assets	13	**3,610**	4,686
		15,970	16,533
Current assets			
Inventories		**12,172**	15,291
Trade and other receivables	14	**18,597**	29,365
Financial assets at fair value through profit or loss		**15,988**	3,234
Other financial assets		**8,410**	3,749
Pledged bank deposits		**130**	130
Short-term fixed bank deposits		**61,912**	10,000
Cash and cash equivalents		**55,998**	124,069
		173,207	185,838
Total assets		**189,177**	202,371
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**31,516**	31,516
Reserves			
Proposed dividend		**–**	6,256
Own shares held		**(1,477)**	(963)
Others		**130,344**	135,082
		160,383	171,891
Minority interest		**214**	219
		160,597	172,110
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		**5**	9
Other payables – non-current		**265**	–
Deferred tax liabilities	9	**181**	221
		451	230
Current liabilities			
Trade and other payables	15	**25,413**	26,554
Tax payables		**2,605**	3,343
Derivative financial instruments		**101**	124
Obligations under finance leases		**10**	10
		28,129	30,031
Total liabilities		**28,580**	30,261
Total equity and liabilities		**189,177**	202,371
Net current assets		**145,078**	155,807
Total assets less current liabilities		**161,048**	172,340

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Unaudited									
	Share capital US$'000	**Share premium** US$'000	**Own shares held** US$'000	**Merger reserve** US$'000	**Exchange reserve** US$'000	**Equity compensation reserve** US$'000	**Retained earnings** US$'000	**Total** US$'000	**Minority interests** US$'000	**Total equity** US$'000
At 1 January 2007	32,251	87,968	(491)	2,082	12	9,302	48,759	179,883	–	179,883
Exchange difference	–	–	–	–	150	–	–	150	–	150
Dividend paid, net of portion for own shares held	–	–	–	–	–	–	(12,802)	(12,802)	–	(12,802)
Shares repurchased	(168)	(1,927)	–	–	–	–	–	(2,095)	–	(2,095)
Profit for the period	–	–	–	–	–	–	9,809	9,809	–	9,809
Equity compensation	–	–	188	–	–	2,538	(188)	2,538	–	2,538
At 30 June 2007	32,083	86,041	(303)	2,082	162	11,840	45,578	177,483	–	177,483
At 1 January 2008	**31,516**	**82,809**	**(963)**	**2,082**	**201**	**13,468**	**42,778**	**171,891**	**219**	**172,110**
Exchange difference	**–**	**–**	**–**	**–**	**267**	**–**	**–**	**267**	**–**	**267**
Dividend paid, net of portion for own shares held	**–**	**–**	**–**	**–**	**–**	**–**	**(6,286)**	**(6,286)**	**–**	**(6,286)**
Shares purchased for Share Award Scheme	**–**	**–**	**(671)**	**–**	**–**	**–**	**–**	**(671)**	**–**	**(671)**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(5,957)**	**(5,957)**	**(5)**	**(5,962)**
Equity compensation	**–**	**–**	**157**	**–**	**–**	**1,139**	**(157)**	**1,139**	**–**	**1,139**
At 30 June 2008	**31,516**	**82,809**	**(1,477)**	**2,082**	**468**	**14,607**	**30,378**	**160,383**	**214**	**160,597**

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	Unaudited For the six months ended 30 June	
	2008 US$'000	2007 US$'000
Net cash (used in) / generated from operating activities	**(4,673)**	49,100
Net cash used in investing activities	**(56,343)**	(37,356)
Net cash used in financing activities	**(6,961)**	(14,902)
Net decrease in cash and cash equivalents	**(67,977)**	(3,158)
Effect of foreign exchange rate changes	**(94)**	181
Cash and cash equivalents at 1 January	**124,069**	110,422
Cash and cash equivalents at 30 June	**55,998**	107,445
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**55,998**	107,445

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

1. General information

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

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 of Hong Kong Limited (the "Stock Exchange") since 8 April 2004.

These condensed consolidated interim financial statements ("Interim Financial Statements") are presented in US dollars, unless otherwise stated. These Interim Financial Statements have been approved for issue by the Board of Directors (the "Board") on 11 September 2008.

2. Basis of preparation

These unaudited Interim Financial Statements of the Group for the half year ended 30 June 2008 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

These Interim Financial Statements of the Group should be read in conjunction with the Company's 2007 annual report.

3. Accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2007.

In 2008, the Group has applied the following new standards, amendments and interpretations ("new HKFRS") issued by the HKICPA, which are effective for the Group's financial year beginning on or after 1 January 2008:

- HK (IFRIC) – Int 11 — HKFRS 2: Group and Treasury Share Transactions
- HK (IFRIC) – Int 12 — Service Concession Arrangements
- HK (IFRIC) – Int 14 — HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

3. Accounting policies (continued)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but not yet effective:

• HKAS 1 (Revised)	Presentation of Financial Statements
• HKFRS 8	Operating Segments
• HKAS 23 (Revised)	Borrowing Costs
• HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
• HKAS 32 (Amendment)	Putable Financial Instruments and Obligations Arising on Liquidation
• HK (IFRIC) – Int 13	Customer Loyalty Programmes
• HKFRS 3 (Revised)	Business Combination
• HKAS 27 (Revised)	Consolidated and Separate Financial Statements

The Directors of the Company anticipate that the application of these standards, amendments or interpretations will not result in substantial changes to the accounting policies of the Group and will have no material impact on the results and financial position of the Group.

4. Financial risk management

4.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong Dollar and other Asian currencies such as Chinese Yuan ("CNY"), Japanese Yen ("JPY"), Singapore Dollars ("SGD") and New Taiwan Dollars ("NTD"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Revenue and majority of the cost of sales of the Group are US dollar based. Majority of the assets and liabilities are in US dollars. Foreign exchange risk mainly arises in the area of operating expenses.

(ii) Price risk

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

(b) Credit risk

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

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

4. Financial risk management (continued)

4.1 Financial risk factors (continued)

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

Except for the cash and cash equivalents, bank deposits and other financial assets, the Group has no significant interest bearing assets or liabilities. Since there is no borrowing in the Group and the cash and cash equivalents and bank deposits are under short maturity terms, the cash flow and fair value interest rate risk is considered to be low.

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or repurchase shares.

During the period, the Group has no major borrowing. The reduction in shareholders' funds is mainly due to the payment of dividend and the loss for the period.

4.3 Fair value estimation

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

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

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

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

5. Critical accounting estimates and judgments

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

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

5.1 Income taxes

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

5.2 Equity compensation

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

5.3 Property, plant and equipment and depreciation

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

5.4 Fair value of derivatives and other financial instruments

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

6. Segment information

(a) *Primary reporting format – business segment*

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

The Group has been operating in one single business segment, i.e. the design, development and sales of proprietary IC and system solutions.

Sales amounted to US$50,774,000 and US$103,420,000 for the periods ended 30 June 2008 and 2007 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, Mainland China ("China") and Japan.

(i) Sales

	Unaudited For the six months ended 30 June	
	2008 US$'000	2007 US$'000
Hong Kong	**34,370**	76,263
Taiwan	**6,525**	13,151
China	**3,581**	1,849
Japan	**2,670**	3,622
South East Asia	**1,888**	5,998
Korea	**516**	679
United States of America ("USA")	**259**	99
Others	**965**	1,759
	50,774	103,420

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

(ii) Total assets

	Unaudited 30 June 2008 US$'000	Audited 31 December 2007 US$'000
Hong Kong	**169,103**	178,718
Taiwan	**6,711**	11,835
Others	**13,363**	11,818
	189,177	202,371

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

6. Segment information (continued)

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

(iii) Capital expenditures

	Property, plant and equipment		Associated companies		Investments in Available-for-sale financial assets	
	Unaudited For the six months ended 30 June					
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000	**2008 US$'000**	2007 US$'000
Hong Kong	**849**	196	**–**	200	**–**	–
China	**201**	45	**857**	–	**–**	–
Taiwan	**847**	101	**–**	–	**–**	–
South East Asia	**388**	3	**–**	–	**–**	–
USA	**–**	–	**–**	–	**–**	1,642
Others	**–**	–	**–**	–	**–**	–
	2,285	345	**857**	200	**–**	1,642

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

7. Other gain/(loss) – net

	Unaudited For the six months ended 30 June	
	2008 US$'000	2007 US$'000
Financial assets at fair value through profit or loss		
– Fair value gain	**240**	–
– Fair value loss	**(1,606)**	–
Other financial assets	**(17)**	–
Derivative financial instruments	**23**	–
	(1,360)	–

8. Expenses by nature

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

	Unaudited For the six months ended 30 June	
	2008 US$'000	2007 US$'000
Depreciation of owned property, plant and equipment	**2,792**	3,124
Depreciation of leased property, plant and equipment	**7**	7
Operating leases for land and buildings	**642**	521
Director and employee expenses		
– Equity compensation	**1,139**	2,538
– Non-equity compensation	**9,631**	7,908
Net exchange gain	**(161)**	(89)
Provision for impairment of receivables	**7**	3
Provision / (write-back of provision) for obsolete or slow moving inventories	**2**	(149)
Scrap of inventories	**1,324**	1,046

(b) Expenses included in other operating expenses are analyzed as follows:

	Unaudited For the six months ended 30 June	
	2008 US$'000	2007 US$'000
Provision for impairment loss of an available-for-sale financial asset	**1,076**	–

9. Taxation

No provision for Hong Kong current profits tax has been made as the Group has no assessable profits for the period. Hong Kong profits tax has been provided at the rate of 17.5% in 2007 on the estimated assessable profits for the period ended 30 June 2007. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Unaudited For the six months ended 30 June	
	2008 US$'000	2007 US$'000
Current taxation:		
– Hong Kong profits tax	**–**	2,261
– Overseas profits tax	**(3)**	1
Under provisions in prior years	**5**	–
Deferred taxation	**(40)**	(383)
Taxation	**(38)**	1,879

10. Dividends

	Unaudited For the six months ended 30 June	
	2008 **US$'000**	2007 US$'000
(a) Dividend attributable to the previous year, approved and paid during the period:		
2007 final dividend, paid, of HK$0.02 (approximately 0.26 US cent) per ordinary share[(i)]	**6,286**	–
2006 final dividend, paid, of HK$0.04 (approximately 0.51 US cent) per ordinary share	**–**	12,802
	6,286	12,802
(b) Dividend attributable to the period:		
2007 interim dividend, paid, of HK$0.01 (approximately 0.13 US cent) per ordinary share	**–**	3,182

Note:

(i) At a meeting held on 27 March 2008, the Directors proposed a final dividend of HK$0.02 (approximately 0.26 US cent) per ordinary share. The final dividend was paid on 22 May 2008.

11. (Loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share is based on the Group's loss attributable to equity holders of the Company of US$5,957,000 (2007 profit: US$9,809,000).

The basic (loss)/earnings per share is based on the weighted average of 2,412,217,765 (2007: 2,461,715,063) ordinary shares in issue excluding own shares held during the period.

Diluted (loss)/earnings per share information is based on 2,432,154,507 (2007: 2,485,384,312) ordinary shares which is the adjusted weighted average number of ordinary shares outstanding assuming the conversion of all share options outstanding but excluding unallocated own shares held during the period. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares as calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited For the six months ended 30 June	
	2008	2007
Weighted average number of ordinary shares in issue	**2,412,217,765**	2,461,715,063
Adjustments for		
– allocated own shares held	**19,936,742**	23,669,249
– share options	**–**	–
Weighted average number of ordinary shares for diluted (loss)/earnings per share calculation	**2,432,154,507**	2,485,384,312

12. Investment in an associated company

On 25 March 2008, the Group acquired 20% equity interest of Shenzhen aigo Research and Development Co., Ltd（深圳市愛國者嵌入式系統科技有限公司）which is engaged in the design, development and distribution of mobile multimedia solutions for a cash consideration of CNY6,000,000 (US$857,000). The share of post-acquisition loss was US$20,000. The details of the net assets acquired are as follows:

	Unaudited	
	Fair value US$'000	**Carrying amount in the books of the associated company US$'000**
Cash and cash equivalents	354	354
Intangible assets	182	182
Property, plant and equipment	148	148
Inventories	115	115
Trade and other receivables	403	403
Trade and other payables	(192)	(192)
Net assets		1,010
Fair value of net assets acquired		202
Purchase consideration settled in cash		857
Goodwill		655

The goodwill is attributable to the workforce of the associated company and the synergy expected to arise after the acquisition.

13. Available-for-sale financial assets

	Unaudited 30 June 2008 US$'000	Audited 31 December 2007 US$'000
Unlisted shares, at cost	**6,337**	6,337
Less: Provision of impairment loss	**(2,727)**	(1,651)
	3,610	4,686

There was no disposal of available-for-sale financial assets during the six months ended 30 June 2008. All the available-for-sale financial assets are unlisted equity securities.

14. Trade and other receivables

	Unaudited 30 June 2008 US$'000	Audited 31 December 2007 US$'000
Trade receivables	**14,093**	24,843
Less: provision for impairment of receivables	**(38)**	(395)
Trade receivables – net	**14,055**	24,448
Prepayments and other receivables	**4,542**	4,917
	18,597	29,365

The ageing analysis of trade receivables is as follows:

	Unaudited 30 June 2008 US$'000	Audited 31 December 2007 US$'000
Current	**10,365**	11,164
1 - 30 days	**1,230**	6,861
31 - 60 days	**976**	4,863
61 - 90 days	**1,187**	1,385
91 - 180 days	**297**	169
181 - 365 days	**–**	6
	14,055	24,448

The Group's sales to corporate customers are mainly entered into on credit terms of 30 days. As of 30 June 2008, trade receivables of US$3,690,000 (31 December 2007: US$13,284,000) were considered past due if measured strictly against the credit terms offered. The overdue sum is not impaired since these are related to a number of independent customers for whom there is no recent history of default.

15. Trade and other payables

	Unaudited 30 June 2008 US$'000	Audited 31 December 2007 US$'000
Trade payables	**18,481**	19,708
Accrued expenses	**6,932**	6,846
	25,413	26,554

The ageing analysis of trade payables is as follows:

	Unaudited 30 June 2008 US$'000	Audited 31 December 2007 US$'000
Current	**17,678**	14,708
1 - 30 days	**488**	4,709
31 - 60 days	**62**	193
61 - 90 days	**29**	23
Over 90 days	**224**	75
	18,481	19,708

16. Share capital

	Unaudited 2008		Audited 2007	
	Number of shares	**US$'000**	Number of shares	US$'000
Authorized:				
Ordinary shares of HK$0.10 each	**5,000,000,000**	**64,433**	5,000,000,000	64,433
Issued and fully paid:				
At 1 January	**2,445,302,351**	**31,516**	2,502,654,351	32,251
Share repurchased	**–**	**–**	(57,352,000)	(735)
At 30 June 2008 and 31 December 2007	**2,445,302,351**	**31,516**	2,445,302,351	31,516

17. Equity compensation scheme

(a) The Share Option Scheme

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

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

		Unaudited Movement during the period Number of share options		
	Exercise price in HK$ per share	**As at 1 January 2008**	Lapsed	**As at 30 June 2008**
14 June 2005	2.695	**6,100,000**	(6,100,000)	**–**
28 June 2006	1.980	**5,500,000**	–	**5,500,000**
7 February 2007	1.430	**1,588,000**	–	**1,588,000**
7 February 2007	1.430	**2,382,000**	–	**2,382,000**
28 June 2007	1.118	**6,300,000**	–	**6,300,000**
		21,870,000	(6,100,000)	**15,770,000**

During the period, 6,100,000 share options granted on 14 June 2005 with an exercise price of HK$2.695 per share were lapsed on 30 June 2008 whilst no option under the Share Option Scheme has been granted, exercised or cancelled.

On 24 July 2008, options to subscribe for 11,000,000 shares of the Company were granted by the Company to directors and senior management of the Company at a nominal consideration of HK$1.0 payable by each grantee. These options may be exercised commencing from 1 July 2009 to 30 June 2011, at the exercise price of HK$0.275 per share.

17. Equity compensation scheme (continued)

(b) *The Share Award Plan*

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

Under the terms and condition of the grant, 40% of the shares will be vested 1 year from the grant date and the remaining 60% will be vested 2 years from the grant date. With the approval of the Remuneration Committee of the Company, the Trustee executed the instruction to replenish the pool by purchasing 8,632,000 shares at prices ranging from HK$0.55 to HK$0.65 using the cash held by the Trustee in early January 2008. As at 30 June 2008, the number of shares allocated but remained unvested under the Trustee for directors and employees of the Group was 15,397,520 while the total number of shares held by the Trustee was 23,979,520.

Shares held by the Trustee under the Share Award Plan:

	Unaudited Number of shares	
	2008	2007
At 1 January	**27,555,520**	38,217,520
Shares purchased from market	**8,632,000**	–
Shares vested during the period	**(12,208,000)**	(14,660,000)
At 30 June	**23,979,520**	23,557,520

18. Operating lease commitments

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

	Unaudited 30 June 2008 US$'000	Audited 31 December 2007 US$'000
Not later than 1 year	**1,014**	1,172
Later than 1 year and not later than 5 years	**434**	770
Later than 5 years	**203**	224
	1,651	2,166

19. Subsequent event

On 5 August 2008, the Group entered into an agreement with Advanced Packaging Technology Limited ("APT"), pursuant to which it will subscribe for 841,469 new shares of APT, representing approximately 21.6% of the issued share capital of APT at a cash consideration of US$4.7 million.

Report on Review of Interim Financial Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

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

Introduction

We have reviewed the interim financial report set out on pages 3 to 19, which comprises the condensed consolidated balance sheet of Solomon Systech (International) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial report in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report does not give a true and fair view of the financial position of the Group as at 30 June 2008, and of its financial performance and its cash flows for the six-month period then ended, in accordance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 11 September 2008

Management Discussion and Analysis

Financial Review

An Overview

For the six months ended 30 June 2008, the Group's sales was US$50.8 million (1H 2007: US$103.4 million). The decline was mainly due to (1) average selling price erosion; (2) reduced business from a major customer; (3) demand for consumer electronics dampened by global economic slowdown; and (4) sluggish demand from module maker customers possibly with chipset and module stocks to be used up. The Group had a 38% decline year-on-year in shipment quantity of Solomon Systech Limited, the major subsidiary of the Company, and a 20% year-on-year drop in the blended average selling prices of its products. During the review period, the Group's gross margin was 21.7%, down 2.4% year-on-year with inventory scrap accounting for 1.6%. By altering its product mix, implementing cost reduction measures and continuous price discussion with contract manufacturers, the Group managed to offset part of the gross margin pressure brought by industry price erosion. For the first half of 2008, gross profit was US$11.0 million.

In the review period, the Group continued to expend on R&D and business development, but was more selective on R&D spending. Therefore, there was a moderate saving in R&D expenses. Affected by (1) a lower gross profit; (2) a provision for impairment of an available-for-sale financial asset ("AFS") of US$1.1 million; and (3) the unrealized loss on financial assets at fair value through profit or loss ("FVTPL") of US$1.4 million, the Group recorded net loss attributable to equity holders of US$6.0 million. No interim dividend for the six months ended 30 June 2008 was declared by the Board.

Liquidity and Financial Resources

The Group incurred total operating losses of US$8.4 million of which US$5.9 million was operating loss from the lower sales and gross profit of the IC business, and US$1.1 million and US$1.4 million were impairment provision for an investment in AFS and the unrealized loss on FVTPL respectively. Total cash and bank deposits or equivalents (including other financial assets) of the Group amounted to US$126 million at period-end, compared with US$138 million as at 31 December 2007. The change in cash position was mainly a result of (1) dividend paid of US$6.3 million and (2) acquisition of US$14.1 million in FVTPL. Regarding use of the cash reserves, the Group will continue to invest in product development, securing production capacity, strategic corporate venture investment as well as general corporate purposes. As at 30 June 2008, the Group had no major borrowings and there were no significant changes on the Group's assets. The Group's cash balance was mainly deposited in banks.

All of the Group's trade receivables and most of its payables are quoted in US dollars. The Group closely monitors foreign exchange rates and constantly seeks to obtain favorable exchange rates for conversion of US dollars into other currencies for paying local operating expenses. During the review period, the Group did not use any derivative instruments to hedge against foreign currency exposure as the Directors considered that exposure to be insignificant.

Capital Expenditure and Contingent Liabilities

In 1H 2008, the Group spent a total of US$3.1 million in capital expenditure, of which US$2.2 million was for property, plant and equipment purchases and US$0.9 million was for strategic corporate venture investment. Property, plant and equipment purchases primarily consisted of spending on purchases of EDA (electronic design automation) tools and back-end manufacturing equipment.

The Group explored opportunities to purchase office space for own use upon the expiry of the current tenancy in Taiwan. Appropriate office space was identified in Hsin Chu, Taiwan at a total consideration of NTD55 million (approximately US$1.8 million). An agreement to buy was executed on 16 July 2008 and a 10% down payment was made on 23 July 2008. Another 20% of the total is payable tentatively in early October 2008 and the balance of 70% shall be payable tentatively in November 2008 prior to move-in.

As at 30 June 2008, the Group had no other material capital commitments or contingent liabilities.

On 5 August 2008, the Group entered into an agreement with Advanced Packaging Technology Limited ("APT"), pursuant to which it will subscribe for 841,469 new shares of APT, representing approximately 21.6% of the issued share capital of APT at a consideration of US$4.7 million. Other than that, the Group did not make any material acquisitions or disposals of subsidiaries and associated companies during the review period.

Business Review

Book to Bill Ratio and Backlog

In the review period, the book to bill ratio stood at 0.90, reflecting the challenging market environment. In addition to the global economy slowdown, serious inflation in China has also dampened the demand for consumer electronics. As at 30 June 2008, the Group registered a backlog of orders at around 40 million units for the second half of 2008.

Product Shipment

In the review period, the Group has shipped a total 61 million units of display ICs, declined by 38% year-on-year. The shipment of monochrome STN and color STN ("CSTN") display ICs decreased as the mobile phone market continued to shift its demand to mobile TFT ("m-TFT") display ICs. M-TFT display ICs shipment recorded a growth of 29% to 22 million units, reflecting that the m-TFT product family was progressively over-taking the monochrome STN and CSTN in sales. OLED display ICs showed a drop of 15% year-on-year to 11 million units. The OLED display market more or less stabilized with the OLED display technology finding its way into various new applications. The shipment of new display ICs fluctuated as the volume shipment had shifted from mobile phone application to electronic shelf label application. In the first half year, the Group also shipped a small volume of display system ICs. The shipment breakdown by product type is as follows:

Units Shipped (million)	**1H 2008**	**1H 2007**	**Change**	**2007**
Monochrome STN	11	18	-39%	32.2
CSTN	14	41	-66%	63.7
m-TFT	22	17	29%	29.8
OLED	11	13	-15%	29.1
New Display	3	9	-67%	16.8
System IC	0	0	—	1.2
Miscellaneous	0	1	-100%	0.6
Total	**61**	**99**	**-38%**	**173.4**

Note: Miscellaneous includes microdisplay ICs, large display driver ICs and others.
Abbreviation: STN stands for super twisted nematic; TFT, thin-film transistor; and OLED, organic light-emitting device.

Going into the second half of 2008, the Group will concentrate on developing projects with strategic alliances, providing dedicated services, launching new and comprehensive products and solutions to customers in order to defend its market position and prepare for long-term growth.

Business Relationships

After a year of strategic focus in key customer accounts, the Group won several major projects in new market applications such as audio video ("AV") products and personal navigation device ("PND"). The Group will continue to dedicate its support to these strategic accounts so as to open up more business opportunities.

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

Regarding the Display System Solution business, the Group provides customers with total display system solutions that support specific emerging applications such as mobile digital TV ("MDTV"), PND, portable media players ("PMP") and others. The Group aligns with independent design house ("IDH") and offers timely and total system solution to original design manufacturer ("ODM"). During the review period, it launched the MagusCore™ multimedia solution with initial focus on MDTV application in China. Given this enlarged solutions offering, the Group broadened its customer base for the emerging consumer product applications. The leading technology of the Group in system solutions has reinforced the business relationships of the Group with existing customers and also attracted new key customers to it.

Research and Development

In the past six months, research and development costs were approximately US$8.5 million. To support business growth and stay competitive in the marketplace, the Group focuses on enhancing the features of existing products and developing new products including touch panel intellectual property ("IP"), dynamic backlight control, new generation Mobile Industry Processor Interface ("MIPI") ICs, as well as supporting total system solutions with hardware, software and firmware for MDTV. In the first half of 2008, the Group had one patent filed with and one patent granted by the United States Patent and Trademark Office and presented two technical papers in Synopsys Users Group China 2007-2008.

As at 30 June 2008, the Group had around 280 professionals in the design and engineering function, representing approximately 55% of its total employee headcount. The mix of the professionals had been broadened to include also system application and software engineering in order to develop and support its total system solutions for multimedia products. The Group's R&D team continually designs products using various wafer technologies as advanced as 90nm. Besides, the Group has specialist teams in Hong Kong, Shenzhen and Singapore with different expertise in mix-signal high-voltage IC design, application software design and VLSI (Very-large-scale-integration) design.

Human Resources

As at 30 June 2008, the Group had a workforce of about 510 (after the adding on of about 60 headcounts resulted from the acquisition of a subsidiary effective 1 December 2007), of which approximately 53% were based in its head office in Hong Kong and the rest were located in China, Japan, Singapore, Taiwan and the USA.

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

In the first half of 2008, employees who delivered exceptional performances in 2007 were granted cash bonuses. On 24 July 2008, executive directors, selected senior management and employees were granted shares, subject to vesting, in recognition of their performance and as incentive for them to continue to serve the Company. At the Board level, directors were awarded share options for their past and forthcoming contributions to the Group.

Prospects

With the book to bill ratio at 0.90 as at 30 June 2008, the second half of 2008 is expected to stay challenging for the Group. To improve the situation, the Group has made progress in delivering new technologically leading ICs, and has expanded its customer base. The Group will continue its efforts in product diversification and in providing fast turnkey solutions for customers.

Display Panel

Mobile Display

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

As regards the Group's mobile display business in the next six months, it is expected that the shipment of monochrome display ICs will decrease gradually in time with the migration of monochrome displays to color displays. Due to the cost of m-TFT modules becoming more competitive, which has limited the shipment of CSTN display modules, the CSTN display IC shipment will continue to decline. The Group expects m-TFT LCD will become the major panel technology for mobile display applications in the coming six months and therefore m-TFT will continue to take up a major portion of the Group's IC unit shipment. The Group carries on expanding its m-TFT business through introducing new generation driver IC products with competitive features and supporting more display resolution formats for product application diversification.

About OLED display ICs, the market will remain stable in the second half of 2008 due to (1) the increasing maturity of the OLED display technology in mass production; and (2) the steady demand from new applications, such as fashion designed mobile applications, Bluetooth headsets, health products and industrial applications. Passive Matrix OLED ("PMOLED") and Active Matrix OLED ("AMOLED") are two families of OLED technology. The Group continues to be the leader in the PMOLED display ICs market and will develop AMOLED display ICs with leading panel makers.

Large Display

The Group will continue to look for business opportunities through partnership with large TFT LCD panel makers in China, Japan and Taiwan region. It will take time for this business to start to contribute to the turnover of the Group.

New Display

Being the leader in the industry with its high-volume production of new display ICs, the Group maintains a positive view on the emerging new display IC business as more applications realize the advantages of the new display technology. The Group has begun shipping production quantities to electronic shelf label applications in the first half of 2008 and the design-in work continues in other E-paper projects such as price tag and USB disk. Potential applications are plentiful as the E-paper technology improves.

For the microdisplay business, the Group will continue to support microdisplay ICs and module products for application in high-definition movies, stereo 3D games and viewfinders of high-end digital cameras.

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

Display System Solution

The Display System Solution business unit focuses on developing total system solution that (1) increase display image quality and functions; (2) support high-speed mobile interfaces; and (3) generate high-performance multimedia solutions.

Products in production like image processors and graphic controllers are supporting consumer applications such as MP4, GPS, digital photo frames and other portable consumer products. With design-wins for new display controller products continuing, the Group expects the segment to make volume shipment in the next six months.

In the high-speed mobile interface market, the business unit leverages its early leadership in MIPI and has several design-wins projects from top-tier industry players that are expected to command mass production in the second half of 2008.

The Group is hopeful that the high-performance MagusCore™ multimedia processor, which was launched in the second quarter of 2008, will bring additional opportunities with strategic alliances. End products using MagusCore™ for CMMB, the MDTV standard adopted in China, will be introduced in the China market in the second half of 2008.

The quick expansion of the system solution business relies on some new resources including the solution center in Shenzhen and the newly acquired IDHs. These new resources will contribute to the delivery of total system solutions based on the current MDTV platform and expansion of system solutions into other high-volume applications like PND and PMP. The Group expects more projects will adopt the products from Display System Solution in the second half of 2008.

Other New Business

On 5 August 2008, the Group signed an agreement to acquire 21.6% equity ownership of APT, after which APT will become an associated company of the Group. APT is in the business of development, manufacturing and sale of high-brightness light-emitting devices ("LED") and advanced integrated circuit products. It also undertakes research, development and consultancy work in relation to those products.

With regard to this subscription, the Group considered the solid state lighting and signage industry has been growing and has become an attractive extension of its display IC applications into the energy-saving or "green" product arena. Armed with proprietary technology for high-brightness light-emitting devices, APT will immediately give the Group strength to tap the growing industry. Meanwhile, the Group will develop new associated IC products like LED drivers and controllers etc to complement this investment.

As the Group constantly reviews its business strategy in maximizing the value of the Group, it will continue to explore new business opportunities.

Directors' Interest

As at 30 June 2008, the interests and short positions of each director and the chief executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

		Ordinary shares of HK$0.10 each in the Company as at 30 June 2008				
Name of Director		**Directly Owned**		**Beneficially Owned**	**Total**	**% of the issued share capital of the Company**
		Shares	**Options**	**Shares**(i)		
Independent Non-executive Directors						
Sun, Patrick	Long	–	1,000,000	–	1,000,000	0.04%
	Short	–	–	–	–	–
Choy Kwok Hung, Patrick	Long	1,100,000	1,000,000	–	2,100,000	0.09%
	Short	–	–	–	–	–
Wong Yuet Leung, Frankie	Long	–	1,000,000	–	1,000,000	0.04%
	Short	–	–	–	–	–
Executive and Non-executive Directors						
Chang Ching Yi, Steven	Long	1,800,000	1,000,000	–	2,800,000	0.11%
	Short	–	–	–	–	–
Lam Pak Lee	Long	800,000	1,000,000	–	1,800,000	0.07%
	Short	–	–	–	–	–
Sheu Wei Fu	Long	–	–	–	–	0.00%
(Alternate to Lam Pak Lee)	Short	–	–	–	–	–
Leung Kwong Wai	Long	121,658,308	2,020,000	1,242,000	124,920,308	5.11%
	Short	–	–	1,242,000(ii)	1,242,000	0.05%
Huang Hsing Hua	Long	9,578,746	1,000,000	192,000	10,770,746	0.44%
	Short	–	–	192,000(ii)	192,000	0.01%
Lai Woon Ching	Long	29,323,032	1,050,000	192,000	30,565,032	1.25%
	Short	–	–	192,000(ii)	192,000	0.01%
Lam Shun Fu, Percy	Long	648,000	950,000	972,000	2,570,000	0.11%
	Short	–	–	972,000(iii)	972,000	0.04%
Lo Wai Ming	Long	32,000,179	1,000,000	192,000	33,192,179	1.36%
	Short	–	–	192,000(ii)	192,000	0.01%

Notes:

(i) The shares are held by the Trustee for the benefit of the directors. Under the terms and condition of the Share Award Plan, 40% of the shares will be vested 1 year from the grant date and the remaining 60% will be vested 2 years from the grant date.

(ii) The shares for Messrs. Leung Kwong Wai, Huang Hsing Hua, Lai Woon Ching and Lo Wai Ming are to be vested by 28 June 2009.

(iii) 780,000 shares and 192,000 shares for Mr. Lam Shun Fu, Percy shall be vested respectively on 28 December 2008 and 28 June 2009.

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

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

Substantial Shareholders

The register of substantial shareholders required to be kept by the Company under section 336 of Part XV of the SFO shows that as at 30 June 2008, the Company had been notified of the following substantial shareholders' interests and short positions in the shares or underlying shares of the Company, being interests of 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and the chief executive of the Company.

			Ordinary shares of HK$0.10 each in the Company	
Name	**Capacity**	**Position**	**Number of shares held**	**% of the issued share capital of the Company**
State Street Corporation	Interest of Controlled Corporation	Lending Pool	187,366,419	7.66%
TIAA-CREF Investment Management, LLC	Beneficial Owner	Long	170,527,237	6.97%

Saved as disclosed above, the Company had not been notified of any interest or short positions in the shares or underlying shares of the Company as at 30 June 2008.

Share Option Scheme

Share options have been granted to Directors and senior management of the Group under the Share Option Scheme approved by shareholders of the Company at an Extraordinary General Meeting on 25 February 2004. The purpose of the Share Option Scheme is to provide the participants who may be executive directors, non-executive directors, independent non-executive directors, employees of any member of the Group, any advisers, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners or service providers of any member of the Group who as the Board, in its sole discretion may consider, will contribute to the Group, with opportunity to acquire proprietary interests in the Company so as to encourage such participants to work towards enhancing the value of the Company and its shares for the benefits of the Group with a flexible mean of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such participants. The terms of the Share Option Scheme are in accordance with the provisions of the Chapter 17 of the Listing Rules. The Share Option Scheme is valid and effective for a period of 10 years commencing from 19 March 2004, being the date of adoption of the Scheme by the Board of the Company.

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

Options to subscribe for 11,000,000 new shares of the Company were granted by the Company to Directors and senior management of the Group under the Share Option Scheme on 24 July 2008. The options are exercisable at the exercise price of HK$0.275 per share, starting 1 July 2009 and lapse on 1 July 2011.

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under all the share option schemes does not in aggregate exceed 10% of the shares in issue as at the date of approval of the Share Option Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes does not exceed 30% of the shares in issue from time to time.

Details of the share options outstanding as at 30 June 2008 which have been granted under the Share Option Scheme are as follows:

	Number of options					Exercise period	
Name of Participants	**Held on 1 January 2008**	**Lapsed during the period**	**Held on 30 June 2008**	**Exercise price HK$**	**Grant date**	**Begins**	**Ends**
Independent Non-executive Directors							
Sun, Patrick	800,000	(800,000)	–	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	–	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,800,000	(800,000)	1,000,000				
Choy Kwok Hung, Patrick	500,000	(500,000)	–	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	–	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,500,000	(500,000)	1,000,000				
Wong Yuet Leung, Frankie	500,000	(500,000)	–	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	–	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,500,000	(500,000)	1,000,000				
Subtotal	**4,800,000**	**(1,800,000)**	**3,000,000**				
Executive and Non-executive Directors							
Chang Ching Yi, Steven	800,000	(800,000)	–	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	–	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,800,000	(800,000)	1,000,000				
Lam Pak Lee	800,000	(800,000)	–	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	–	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,800,000	(800,000)	1,000,000				
Leung Kwong Wai	800,000	(800,000)	–	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	408,000	–	408,000	1.430	7 February 2007	1 April 2009	31 March 2011
	612,000	–	612,000	1.430	7 February 2007	1 April 2010	31 March 2012
	500,000	–	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	2,820,000	(800,000)	2,020,000				

Details of the share options outstanding as at 30 June 2008 which have been granted under the Share Option Scheme are as follows: (continued)

	Number of options					Exercise period	
Name of Participants	**Held on 1 January 2008**	**Lapsed during the period**	**Held on 30 June 2008**	**Exercise price HK$**	**Grant date**	**Begins**	**Ends**
Huang Hsing Hua	300,000	(300,000)	–	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	–	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,300,000	(300,000)	1,000,000				
Lai Woon Ching	300,000	(300,000)	–	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	20,000	–	20,000	1.430	7 February 2007	1 April 2009	31 March 2011
	30,000	–	30,000	1.430	7 February 2007	1 April 2010	31 March 2012
	500,000	–	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,350,000	(300,000)	1,050,000				
Lam Shun Fu, Percy	60,000	–	60,000	1.430	7 February 2007	1 April 2009	31 March 2011
	90,000	–	90,000	1.430	7 February 2007	1 April 2010	31 March 2012
	800,000	–	800,000	1.118	28 June 2007	1 July 2008	30 June 2010
	950,000	–	950,000				
Lo Wai Ming	300,000	(300,000)	–	2.695	14 June 2005	1 July 2006	30 June 2008
	500,000	–	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	–	500,000	1.118	28 June 2007	1 July 2008	30 June 2010
	1,300,000	(300,000)	1,000,000				
Subtotal	**11,320,000**	**(3,300,000)**	**8,020,000**				
Senior management and employees							
Others	1,000,000	(1,000,000)	–	2.695	14 June 2005	1 July 2006	30 June 2008
	1,000,000	–	1,000,000	1.980	28 June 2006	1 July 2007	30 June 2009
	1,100,000	–	1,100,000	1.430	7 February 2007	1 April 2009	31 March 2011
	1,650,000	–	1,650,000	1.430	7 February 2007	1 April 2010	31 March 2012
	1,000,000	–	1,000,000	1.118	28 June 2007	1 July 2008	30 June 2010
Subtotal	**5,750,000**	**(1,000,000)**	**4,750,000**				
Total	**21,870,000**	**(6,100,000)**	**15,770,000**				

Except for 6,100,000 share options lapsed during the period, there were no option being granted, exercised or cancelled under the Share Option Scheme.

Corporate Governance and Supplementary Information

Corporate Governance is highly regarded within the Group. The Group keeps abreast of the best practices in the corporate governance area and strives to implement such practices as appropriate. At present, the roles of Non-executive Chairman and the Chief Executive Officer (in the case of the Group, the Managing Director) are separated. In addition, Independent Non-executive Directors ("INEDs") and Non-executive Directors ("NEDs") are appointed for a specific term up to 30 June 2010, subject to re-election according to the procedures set out in the Company's Articles of Association. INEDs and NEDs are encouraged to take educational courses at the expense of the Group on duties of the Board and corporate governance. The above-mentioned practices were well implemented and basically follow the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules on the Stock Exchange which came into effect on 1 January 2005.

Code on Corporate Governance Practices

The Company has complied with all applicable code provisions as set out in the Appendix 14 of the Listing Rules. As at 30 June 2008, Audit Committee, Remuneration Committee, Nomination Committee and Investment Committee had been formed with their respective terms of reference in force.

Professor Kao Kuen, Charles resigned as an independent non-executive director of the Company effective 1 March 2008. As at 11 September 2008, the composition of the Board of the Company was as follows:

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

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

Pursuant to Appendix 14 of the Listing Rules, the Group established its own written guidelines ("Guidelines") on no less exacting terms than the Appendix 10 of the Listing Rules on the Stock Exchange ("Model Code") for the Directors and relevant employees who are likely to be in possession of unpublished price sensitive information in respect of their dealings in the securities of the Company. Specific enquiry had been made with the Directors and relevant employees and they had complied with the Group's own Guidelines throughout the six months ended 30 June 2008.

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

Except for the purchase of shares from the market by HSBC International Trustee Limited as set out on note 17(b) to the Interim Financial Statements for the Share Award Plan, there was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the review period.

Audit Committee

The Audit Committee is composed of three INEDs. This unaudited Interim Financial Statements of the Group for the six months ended 30 June 2008 have been reviewed by the Audit Committee of the Company alongside the internal audit team, and the independent auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Investor Relations and Communications

The Group recognizes the rights of the Company's shareholders to know more about its business and prospect, and therefore it has always taken a proactive approach to communicate with the investment community, for example institutional investors, sell-side analysts and retail investors. In the first half of 2008, the Group held more than 37 meetings and conference calls with investors and analysts. To enhance the Group's profile among the general public in Hong Kong, several interviews were conducted with local media, and several group visits to its head office were arranged with local universities and technology institution. Stakeholders of the Company are recommended to visit the Group's website (*www.solomon-systech.com*) from time to time, where up-to-date information of the Group can be accessed.

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

All the financial and other related information of the Company required by the Listing Rules of the Stock Exchange has been published on the Stock Exchange's website (*www.hkex.com.hk*) and the Group's website (*www.solomon-systech.com*) on 11 September 2008.

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

Hong Kong, 11 September 2008

Corporate and Shareholder Information

Financial Calendar

Financial Year End	31 December
Interim Results Announced	11 September 2008

Share Listing

Listing Venue	Main Board of The Stock Exchange of Hong Kong Limited
Listing Date	8 April 2004
Stock Code	2878
Board Lot	2,000 shares
Trading Currency	HKD
Issued Shares	2,445,302,351 (as at 30 June 2008)

Share Registrars

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PricewaterhouseCoopers

Solicitors

Richards Butler

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Qualified Accountant/ Company Secretary

Mrs. Fung Lui Kit Har, Keziah
FCMA, FHKCPA, ACS, ACIS

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