Solomon Systech (International) Limited
HKSE : 2878
Annual Report 2010

SOLOMON SYSTECH

CREATING VALUE THROUGH SYNERGIES

solutions in silicon

CORPORATE PROFILE

Solomon Systech (International) Limited and its subsidiaries as a Group, is a leading semiconductor company providing integrated circuit ("IC") products and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs, consumer electronic products, industrial appliances and green energy applications such as LED lighting.

VISION

Provide the ultimate silicon solution for every display system

CREATING VALUE THROUGH
SYNERGIES

The five product families – Mobile Display, Advanced Display, Large Display, Display System Solution and Green Power, together shape this five-pointed star which brings a rewarding prospect and a shining successful future to the Group. This styled star with an ascending path symbolizes the innovations of Solomon Systech that leads the Group forward in the industry. It also shows that the synergies of solutions within these five product families add value and bring sustainable growth to the Group and its customers, and together they will rise to a higher level.

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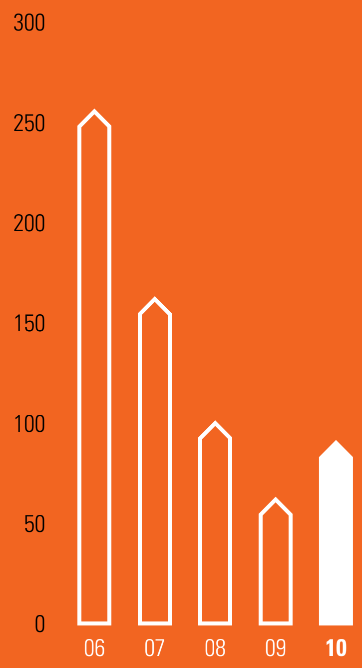
FINANCIAL HIGHLIGHTS

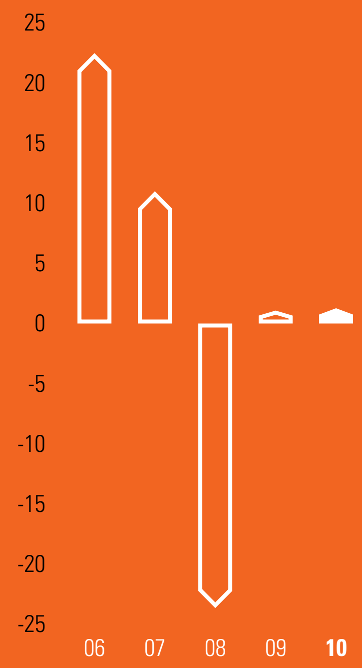
	2010 US$ million	2009 US$ million	Change
Sales	**84.7**	61.8	+37%
Gross profit	**25.6**	20.4	+25%
Net profit	**1.0**	0.7	+52%
Earnings per share (US cent)	**0.04**	0.03	+51%
Dividend per share (US cent)	—	0.13	
Book to bill ratio	**1.0**	1.0	
Total assets	**154.2**	150.2	
Shareholders' funds	**135.0**	135.8	

- Sales grew by 37% to US$84.7 million
- Gross profit grew by 25% to US$25.6 million
- Net profit was US$1.0 million
- Basic earnings per share was 0.04 US cent (0.33 HK cent)
- The Board does not recommend the payment of final dividend for the year ended 31 December 2010
- Book to bill ratio for the year ended 31 December 2010 was 1.0

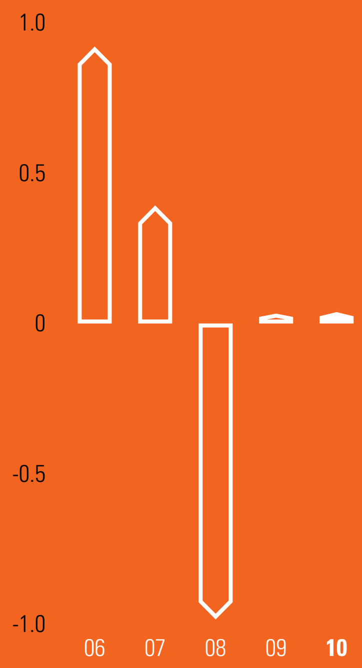
Sales
(US$ million)



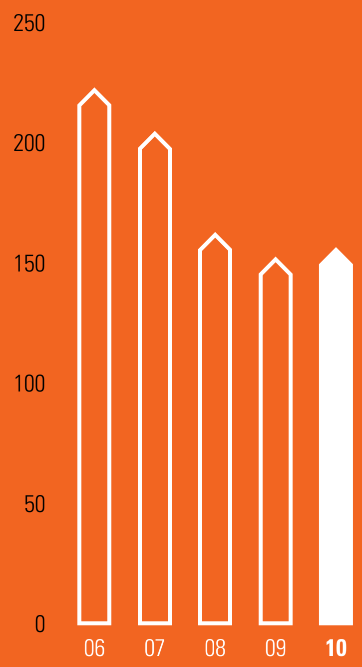
Net Profit/Loss
(US$ million)



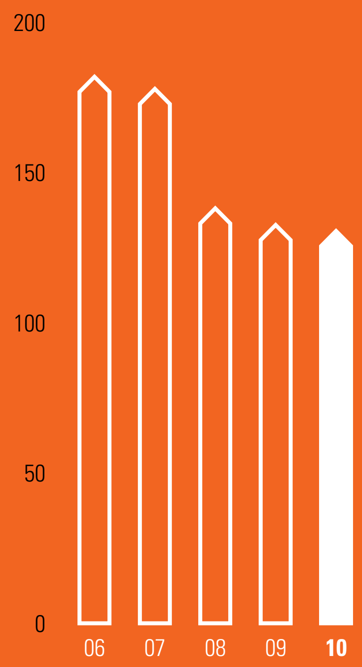
Basic Earnings/Loss per Share
(US cent)



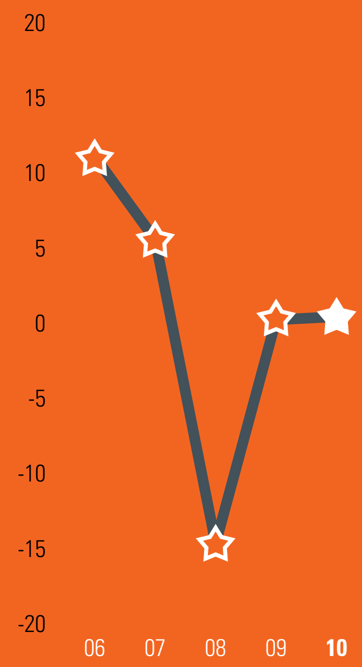
Total Assets
(US$ million)



Shareholders' Funds
(US$ million)



Return on Equity
(%)



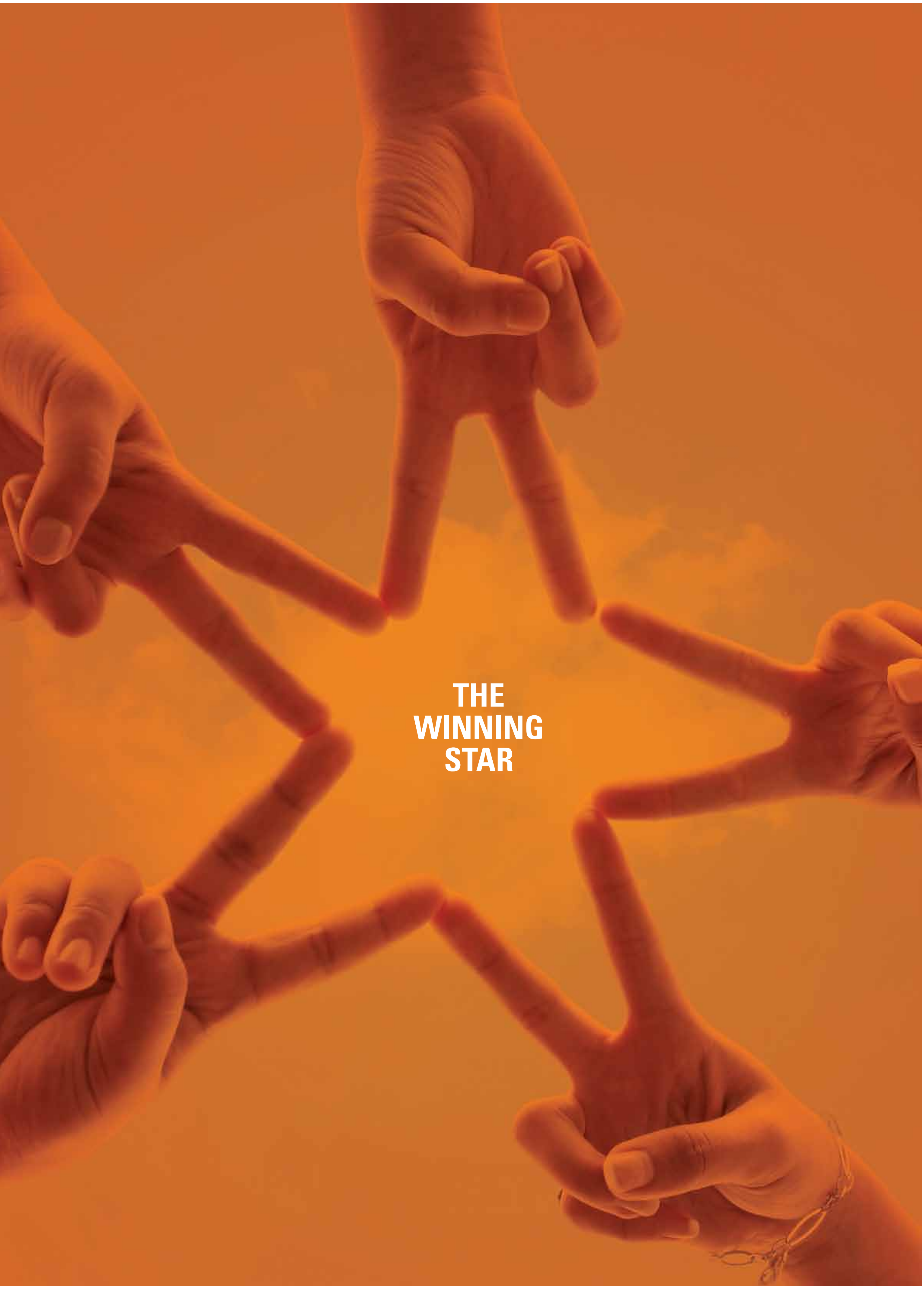
" We successfully overcame the challenges as our revenue growth of 37% outpaced that of the industry in 2010."

SUN, Patrick
Chairman

Strive for Our Best in 2010

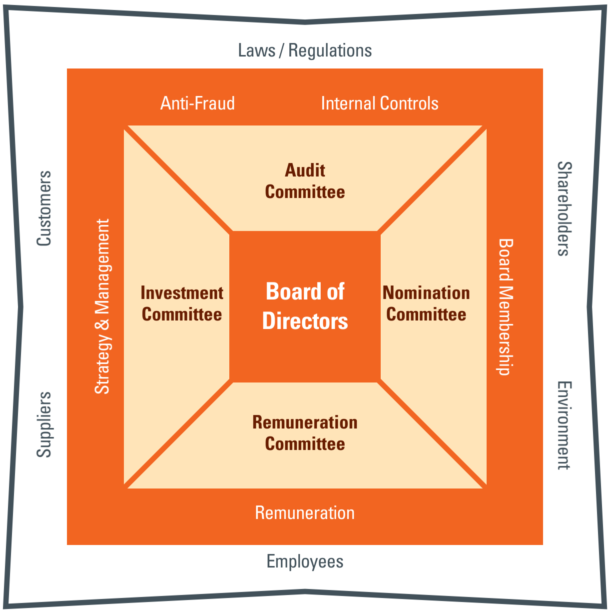
The semiconductor industry recovered its strength in 2010, outperforming many other segments and recording significant revenue growth estimated at 33%. With the market stepping out from the 2009 recession, demand for technology products became strong, as people were buying consumer devices at a fast pace. However, the booming demand in many cases met supply shortages as companies reset inventories during the economic aftermath of 2009.

The semiconductors supply growth in 2010 as measured by wafer capacity and inventory was significantly below levels. Wafer supply growth rate as defined by per annum growth in square inches of silicon was historically at 7.5% in 1998 to over 12% per year in 2004. With cyclically low capital spending and absolute supply reductions during the credit crisis years of 2008 and 2009, the supply growth in 2009-2011 is estimated to be at only 5-7% per annum.


THE
WINNING
STAR

As a key player of the supply chain, Solomon Systech rode the same wave of recovery demand but experienced very tight wafer capacity in 2010. Thanks to the tremendous effort made by the executive team led by the Managing Director, through understanding customers' need and working closely with our foundry partners, Solomon Systech successfully overcame the challenges as our revenue growth of 37% was outpacing that of the industry in 2010. We were able to fulfill the increasing demand and our customers were able to ramp up their business. Furthermore, we earned trust from both our customers and manufacturing partners that will benefit us through more business opportunities in the coming years. And this is the long lasting value that Solomon Systech creates for our customers and for our stakeholders.

As Chairman of the Board, I continued to lead fellow members in reviewing the Group's strategies and directions, while enhancing external relations and corporate governance, with the aim of balancing and safeguarding the interests of all stakeholders including the Group, shareholders, customers, business partners, employees and the community.



Solomon Systech's Corporate Governance Structure

Welcome New BOD Members

The Board of Directors welcomed Mr. Li Xiaochun ("Mr. Li"), Mr. Lai Weide ("Mr. Lai") and Mr. Zhao Guiwu ("Mr. Zhao") to join Solomon Systech (International) Limited (the "Company") during October 2010 to serve as Non-executive Directors of the Company.

Mr. Li is the Chief Financial Officer of China Electronics Corporation ("CEC"), the largest state-owned IT company in China and a substantial shareholder of the Company. Mr. Lai is the Deputy General Manager of CEC and the Chairman of Nanjing Panda Electronics Company Limited. Mr. Zhao is the General Manager of the Integrated Circuit Business Group of CEC. All three of them offer valuable in-depth knowledge of the electronics industry. They also hold numerous directorship positions in other technology corporations in China. We firmly believe that the extensive experience and expertise of the new directors will greatly benefit the Company.

Mr. Cheung Wai Kuen, Kenny, Mr. Huang Hsing Hua and Mr. Lo Wai Ming, have resigned as Executive Directors of the BOD so as to maintain a suitable board composition. They remain as members of the senior management team in the Group and focus on business operations and execution, and, together with other senior management, they will contribute their best effort in expanding the Group's business, in the interest of and to provide better rewards to stakeholders.

Corporate Governance

As Chairman of the Board, I and other non-executive directors are responsible for monitoring the performance and implementation of business strategies of the Group and ensuring that effective corporate governance practices are diligently implemented, while the Managing Director of the Group and other senior executives are responsible for day-to-day business operation.

As at 31 December 2010, the Board comprised nine directors, of whom two are executive directors, four are non-executive directors and three are independent non-executive directors.

Under the Board, there are four committees – the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Committee. Led by different members of the Board, each committee is dedicated to achieving and maintaining high corporate governance standards, which are critical to safeguarding the integrity of the Company's operations and maintaining investors' trust in the Company.

In 2010, we made further progress in the evolution of our corporate governance practices. The Corporate Governance Report pursuant to Appendix 23 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited on pages 34 to 41 provides more details on the subject.

Social Responsibility

All of Solomon Systech's products have been RoHS compliant for years, and Solomon Systech itself has earned the certification of the ISO 14000 standard for environmental management systems. We will continue to participate within and promote the green movement in the industry and in the community at large. Our Green Power business, which provides energy-saving LED lighting design systems, underscores our commitment to protecting the environment.

As a good corporate citizen, Solomon Systech has been active in honoring its social responsibilities towards the community. Thus we are very gratified to have been honored the "Caring Company" award from the Hong Kong Council of Social Service ("HKCSS") for the sixth

“ The combination of our product solutions and our new BOD members’ expertise and extensive business connections will create synergies that add values to our stakeholders and bring sustainable growth to the Company.”

consecutive year in recognition of our active involvement in social and community-related activities. The Group and its staff have contributed HK$248,000 in the year to various charities including donations to the Community Chest and the Charles K. Kao Scholarship Endowment Fund. We have also supported environmental campaigns, participated in different activities including tree planting day and Earth Hour 2010, and carried out various green initiatives in our workplace. More information about the Group’s corporate social responsibility activities can be found in the “Social Responsibility” section.

Shareholder Value

The Group’s net profit in 2010 was US$1.0 million with a revenue growth of 37%.

Solomon Systech shipped around 142 million units of products in 2010. We successfully generated new business with our five product families in high growth market segments such as the touch panel, LCD TV and mobile internet connectivity markets. All-in-all, I am pleased to see the Group developing in the right direction where we focus on our core competence and keep strengthening our competitive edge to address high growth markets.

To keep the current year’s earnings for further business development, the Board of the Company recommended no final dividend payable for the year ended 31 December 2010.

We will continue to review our development plans and cash position from time to time to ensure we have an optimum capital structure for maintaining a good balance between the interest of shareholders and the Group’s business needs.

Prospects

The 2011 semiconductor market, according to Gartner’s forecast, will have 4.6% growth, while other predictions range from 2.3% at the low end to 10% at the high end. Generally speaking, analysts are predicting modest, single digit growth for the 2011 semiconductor market.

There are certainly segments within the overall semiconductor market that will grow much more rapidly than others, possibly at a double digit rate. These high growth segments could include complex SoCs and specialty ICs used in smartphones, tablet PCs and connected home entertainment markets. And these products fall exactly into our focus areas and we expect the Group to benefit from the high growth rate of these markets.

Solomon Systech will continue to focus on the five product families: Mobile Display, Advanced Display, Large Display, Display System Solutions and Green Power, to meet the latest market trend in mobile applications, touch panels, smartphones, tablets PCs, industrials appliances, TVs, mobile devices for rich HD content and the green market, where the high growth segments are. We will continue to invest in R&D to strengthen our technological capabilities. At the same time, we will continue to be vigilant in monitoring changes in the global market and work hard at strengthening relations with our customers.

The combination of our product solutions and our new BOD members’ expertise and extensive business connections will create synergies that add values to our stakeholders and bring sustainable growth to the Company.

SUN, Patrick
Chairman
Hong Kong, 24 March 2011

"Our relationships with both our suppliers and customers were further strengthened during the period of tight manufacturing capacity, as we always strive to do our best in the face of challenges and, in this way, turn risks into opportunities."

LEUNG Kwong Wai, Humphrey
Managing Director

Our Business in 2010

As mentioned by our Chairman, in 2010 the Group experienced a recovery in demand but at the same time wafer capacity was very tight. We believe this is the nature of the semiconductor business – a strongly cyclical demand and supply dynamic. And this presents an opportunity to us. We successfully captured the growth as our revenue growth even outpaced that of the industry in 2010. To fulfill the rapidly increasing demand from customers, we extended our effort to understand their requirement deeper and the needs of the end market. We communicated frequently and worked closely with our foundry partners to secure the wafer capacity and followed through every manufacturing step with extra care to ensure smooth and timely product delivery to our customers.

After all, this was a good problem to have in that, through our hard work and dedication, our relationships with both our suppliers and customers were further strengthened during the time of tight manufacturing capacity. Our customers were pleased that we helped them fulfill their incremental business. We have earned greater trust of both customers and suppliers. Based on this mutual trust, customers invited us to participate in their project planning for future businesses, which will help our business growth in the coming years. As we always strive to do our best in the face of challenges and, in this way, turn risks into opportunities.

We continued to focus our product development on the five business units. Each business unit was able to deliver innovative new products in 2010 and grow in different market segments. New products introduced included Touch Panel IC, WVGA TFT Driver, Super Bright Character ROM OLED Driver, Active Matrix ePaper Driver IC, Large Display Source/Gate Driver ICs, Advanced MagusCore™ Multimedia Processor, Android 2.X Mobile Internet Device Platform, Pico-projector, Dimmable LED IC, LED Power Modules and LED Backlight Unit.

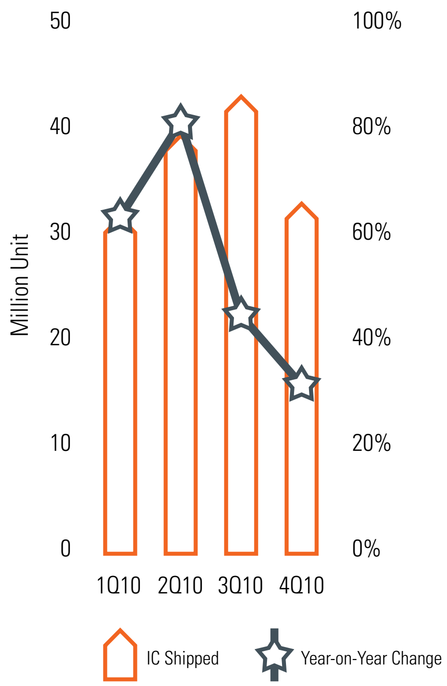
2010 Product Shipment

In 2010, Solomon Systech shipped a total of about 142 million units of products, a 53% increase year-on-year. Each quarter of 2010 recorded a year-on-year increase in shipment quantity ranging from 34% to 81% compared to 2009. All individual product families also enjoyed an increase in number of product shipped. Most noteworthy for the Advanced Display family, shipment quantities were up more than 90% year-on-year.

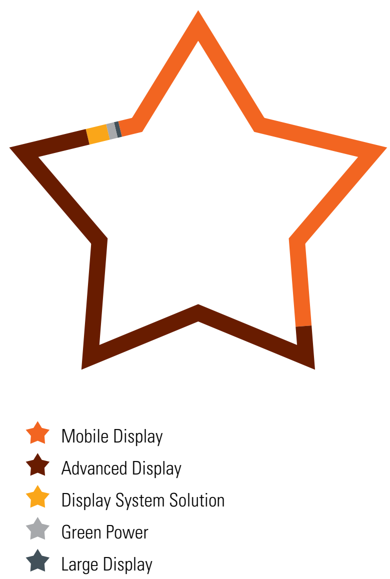
Mobile Display, including LCD driver ICs and touch ICs, remained as the major product family and contributed more than 50% of the total unit shipment. The Advanced Display product family, which includes OLED and e-paper ICs, was catching up with the Mobile Display family and becoming another major revenue contributor. Display System Solution continued its momentum and shipped close to three million IC units. Green Power products had an increasing order volume in the second half of 2010 to 100K units per quarter, whereas Large Display family delivered an initial sample quantity in Q4 2010.

However, in spite of these encouraging signs, we foresee that the global supply chain capacity will still be tight in 2011 when the market demand picks up faster than the supply. Thus, with the prospects of a rise in manufacturing costs, a shortage of supply and longer product delivery lead time, we need to remain prudent in managing our business in 2011.

2010 Product Shipment



2010 Unit Shipment by Product Family



The Business Units

To provide a clearer view of the Group's business, an outline of the five business units is set out below:

BUSINESS UNIT	KEY PRODUCT	MAJOR MARKET APPLICATIONS
Display IC Business		
Mobile Display	► LCD Driver IC ► Touch Panel IC	► Mobile phone ► Smartphone ► Tablet PC ► Personal navigation device ► Portable media player ► Mobile digital TV ► Office equipment
Advanced Display	► OLED Driver IC	► MP3/MP4 player ► Portable media player ► Mobile phone ► Industrial appliance ► Health care product
	► E-paper Driver IC ► System IC	► Electronic shelf label ► E-card ► E-advertisement ► Storage device ► Decorative display application
Large Display	► LCD Driver IC	► LCD TV ► LCD monitor ► Notebook computer
System Solution Business		
Display System Solution	► Multimedia Processor ► Software Solution ► Graphic Controller ► Image Processor ► Interface IC ► Timing Controller	► Android based mobile internet device ► Pico-projector ► eBook ► Mobile phone ► Personal navigation device ► Portable media player ► Mobile digital TV ► Study machine ► Digital photo frame
Green Power	► LED Driver IC ► LED Power Module ► LED Backlight Unit	► LED lighting (indoor & outdoor) ► LED display ► Notebook computer ► LCD Monitor ► LCD TV

Understand and Prepare for Changes

Every year in January, the International Consumer Electronics Show ("CES") held in Las Vegas attracts more than a hundred thousand of visitors to see ground-breaking innovations, experience the latest electronics gadgets and watch closely the emerging market trends.

At 2011 CES, we could see many new consumer electronic products such as smartphones, tablet PCs, internet TVs and 3D display solutions with rich HD content. These products can be categorized into four core product platforms based on their display size: small display smartphones, medium size tablet PCs, large display notebooks and PCs, and very large display TVs.

PRODUCT CATEGORIES BY DISPLAY SIZE

Display Screen Sizes

3" – 5"	5" – 10"	10" – 25"	>32"
Smartphoen, GPS	Tablet PC	Notebook / Desktop	Television

These four core platforms are creating a new human-electronics ecosystem. Many new applications are generated around these platforms involving new sensing devices, connectivity and computing. These new sensing devices (including capacitive touch screen, camera, gyroscope, accelerometer, compass, pressure) together with various interconnect technologies (Internet, Bluetooth, Wi-Fi and Zigbee) running new innovative applications around these platform devices, are going to create new user behavior and new experiences for the social community.

Solomon Systech focuses on delivering dedicated IC and system solutions to support these market trends. We have diversified our product categories from display driver ICs to touch panel ICs that support tablets and smartphones. We have sophisticated multimedia SoC with complete hardware and software system solutions to support various connectivity, HD content and the Android platform for mobile devices, pico-projectors and ebooks, etc. We have large display ICs and LED backlight solutions for TV applications. We also have advanced display solutions for new innovative product designs.

Technological Development

The Group places heavy emphasis on research and development ("R&D") as we believe R&D is the key to success especially for a technology company like us. While we maintained stringent controls on expenses, we continued to devote a relatively high percentage of 18% of our total sales revenue to the R&D expenses in 2010, which amounted to US$15.1 million (2009: US$14.3 million). In particular, resources were dedicated to the development of promising new technologies in system design, mixed signal high integration IC design, software and application solutions. Examples of these new technologies include touch panel IP, 4-channels MIPI/MDDI interface, new Android software platform, full-HD video processing and universal non-flicker LED lighting illumination brightness control.

"Solomon Systech is agile. We are well prepared to capture the opportunities ahead and catch the next wave of a new electronics era."

China Development

While we have always been addressing the global market, China is now undoubtedly a high growth market for electronics and semiconductors. Business opportunities are materializing throughout the country, in a broad spectrum of segments ranging from mobile consumer electronics to major home appliances and green energy. That can be seen from the China's 12th Five-Year Plan proposed by the State Council in Q3 2010, of which implementation is to begin in 2011.

The 12th Five-Year Plan is focused on domestic demand and emerging industries with a view to transforming China from a top energy consumer into a green economy. Top priority has shifted from the nation's wealth to the people's well-being, along with the search for new economic growth drivers. These new drivers lie within the seven emerging industries, including new energy sources, vehicles powered by alternative energy, energy conservation, healthcare & biotech, new materials, new information technologies and high-end equipment. These emerging industries are expected to help foster a green economy, boost private investment, enterprise innovation and R&D capability.

In the 12th Five-Year Plan, China gives priority to energy saving and emission cuts, giving a boost to the LED sector. The Government will seek to use new materials in LED components and use LED applications in environmental protection initiatives. I am pleased to see that Solomon Systech has LED electronics capabilities in place and we are prepared to capture this huge business opportunity.

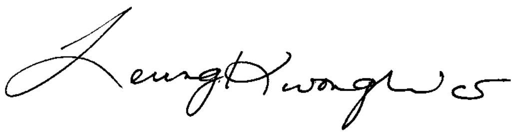
China also aims to expand consumer spending as a share of GDP from 35% in 2009 to 55% in 2015 and to 65% in 2020. That is, the absolute amount of per capita consumer spending in 2015 will be 3 times that of the 2009 amount, implying a CAGR of 20.9%. China aims to boost domestic consumption to drive the nation's economy as stimulating consumer spending seems a necessary choice for sustainable development.

In view of its enormous size, the China marketplace is important to our business growth and we are strengthening our presence. On top of our Shenzhen Technology Center and other regional offices, we have established the Beijing Technology and Business Center in 2010 as our new base in North China. The Beijing Technology and Business Center is to serve our regional customers, particularly in digital TV, consumer electronics and green energy that are among the focus industries in the 12th Five-Year Plan. The new team in Beijing has started new product development full speed ahead and collaborating with targeted customers. The first set of new large display TFT driver samples has been delivered to customers in the second half of 2010 for qualification. Initially, we have a team of about 40 professionals in Beijing with plans to increase the workforce to a few hundred within a few years. We have also received support from our customers and the local government and we plan to build our own premises there to support our future growth in China.

Looking Ahead

With the changing market situation and new market trend, we see great opportunities ahead as each of our five business units has its own technology leading IC products or solutions in place. On the other hand, the world wafer capacity is still expected to be tight in 2011. With the challenges Solomon Systech faces in gaining foothold in new markets, we shall remain cautiously optimistic. Our strategic focus for the year ahead is to: (1) generate revenue with our new products; (2) continue to develop new products and technologies to stay ahead of competition; (3) dedicate strategic effort to expand our business in the booming China market; and (4) manage the supply chain capacity and product delivery lead time.

As mentioned previously, we always strive to do our best in the face of challenges and turn risks into opportunities. Solomon Systech is agile. We are well prepared to capture the opportunities ahead and to catch the next wave of a new electronics era.



LEUNG Kwong Wai
Managing Director
Hong Kong, 24 March 2011

POTENTIAL MARKET

THE FIVE BUSINESS UNITS

Mobile Display

The Mobile Display business unit supports display driver ICs and touch panel ICs for small to medium size LCD displays found in mobile phones, smartphones, tablet PCs, personal navigation device ("PND"), audio/video ("AV") applications, mobile internet devices ("MID") and other portable equipment. This unit supports key technologies including STN / TFT LCD and capacitive touch panel, for monochrome and color displays as well as displays with touch panel functions.

New Products


Touch IC


WVGA TFT Driver

★ Design-wins


Android Phone


Mobile Phone


Mobile Internet Device

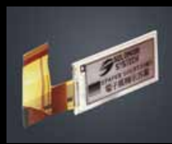

Personal Navigatior Device

Advanced Display

The Advanced Display business unit groups together OLED Display and New Display product families. They are widely applied in different product segments such as mobile phones, MP3 players, Bluetooth headsets, office equipment, industrial appliances, health care products, electronic shelf labels, e-advertisements, e-cards, storage devices, etc. The unit supports both OLED display and e-paper display technologies.

New Products


Super Bright Character ROM OLED Driver


Active Matrix ePaper IC

★ Design-wins


Mobile Phone


Electronic Shelf Labels


Internet Banking Security USB Key


Portable Hi-Fi FM Radio

Large Display

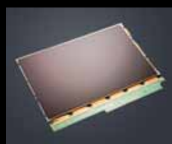
The Large Display business unit addresses large display applications such as LCD TVs, LCD monitors and notebook computers. The unit has a focus on large TFT driver IC solutions.

New Products


SSD3233 Source Driver IC


SSD3263 Gate Driver IC

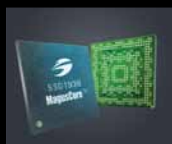
★ Design-wins


SSD3233 / SSD3263 Source / Gate IC applied in 19" notebook panel

Display System Solution

The Display System Solution business unit delivers total system solutions that can increase display image quality and functionality, support high-speed mobile interfaces, generate high-performance multimedia solutions and integrate advanced wireless communication technology. Applications covered include mobile internet devices, pico-projectors, eBooks, personal navigation devices, mobile digital TV, digital photo frames, etc.

New Products


MagusCore™ Multimedia Processor


Android 2.X Mobile Internet Device Platform

★ Design-wins


Pico-Projector


WLAN Display Remote Control


Electronic Guitar

Green Power

The Green Power business unit focuses on providing energy-saving LED driver ICs and LED power module solutions for LED indoor and outdoor lighting and LED backlighting unit ("BLU") applications. The market for LED lighting is booming due to concerns about saving energy as well as for product competitiveness. Applications include light bulbs, spot lights, street lamps, LED backlighting for TVs, etc.

New Products


Dimmable LED IC and Power Modules


Street Light Module

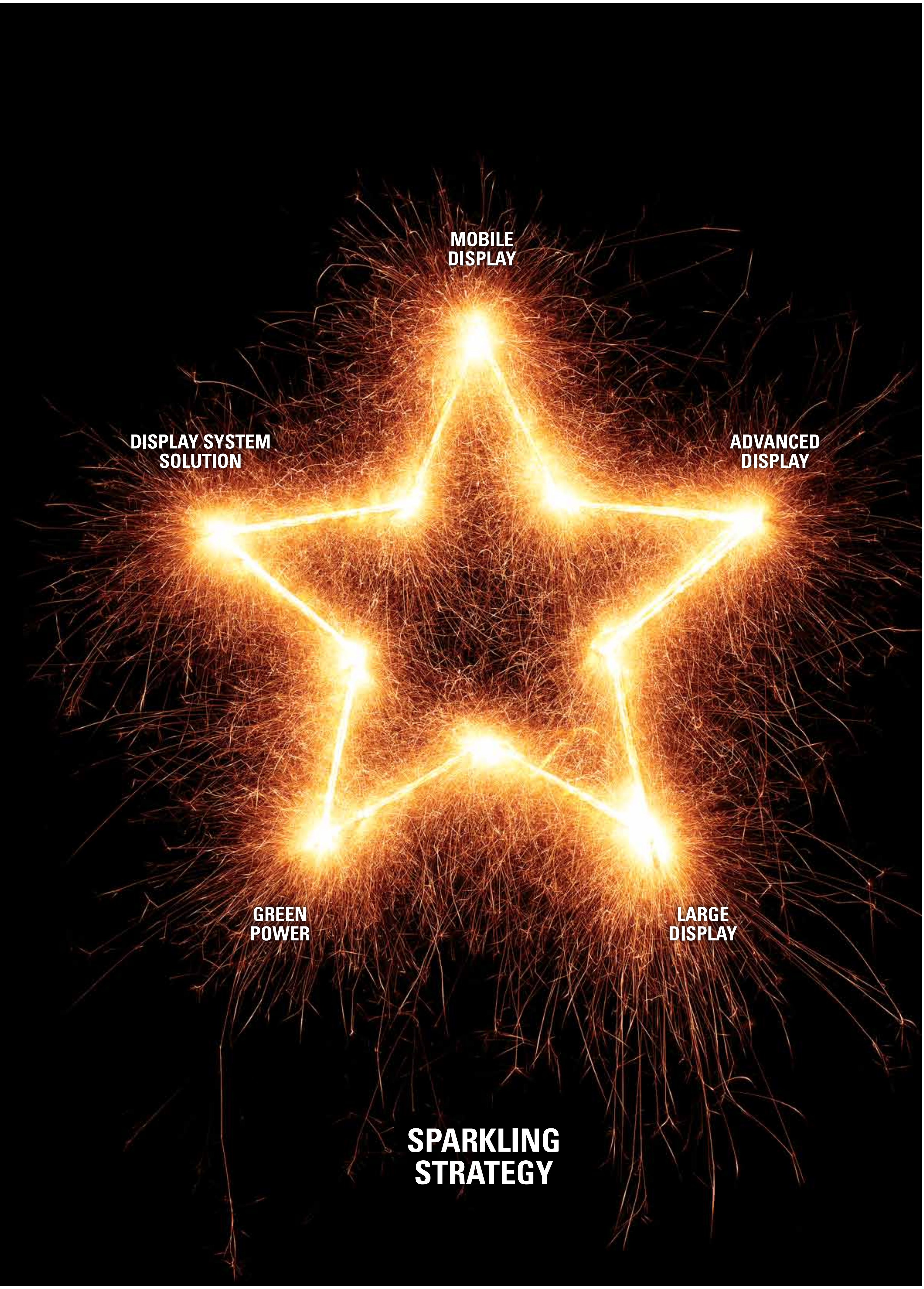
★ Design-wins


Dimmable E27 Bulb


GU10 Bulb


Street Light


LED Light Bar for 19~22 inch Monitor



SPARKLING STRATEGY

FINANCIAL REVIEW

Overview

For the year ended 31 December 2010, the Group's sales totaled US$84.7 million (2009: US$61.8 million) and the book to bill ratio stood at 1.0 (2009: 1.0). The market showed strength of recovery in 2010 as demand for electronic products gathered strength. On the other hand, the wafer capacity for the overall semiconductor industry was very tight due to low capital spending and reductions in supply during the credit crisis years of 2008 and 2009. Through closely monitoring the business, the Group managed to fulfill the incremental demand and recorded a revenue growth of 37% year-on-year.

Sales and Profit

The Group recorded a 53% increase year-on-year in shipment quantity, and a 11% year-on-year drop in the blended average selling price of its products which led to net sales of US$84.7 million, representing a 37% growth over the 2009 sales. The increase was mainly due to demand recovery for semiconductor products and new business generated with newly developed products. But the revenue increase was also limited by average selling price erosion and tight wafer supply.

Gross profit was US$25.6 million, up by 25% compared with last year (2009: US$20.4 million). The Group's gross margin was 30% compared with 33% in 2009. The increase in gross profit was because of the rise in sales revenue. Gross margin for 2010 effectively remained the same as last year in the absence of any significant one-time sell off of slow moving inventory amounting to US$2.5 million for which provisions were made in previous years as noted in 2009 report. Notwithstanding the higher manufacturing cost due to the tight wafer supply, the Group has (1) redoubled its effort to secure wafer supplies; (2) improved its manufacturing productivity through product yield improvement; (3) utilized fully its own manufacturing assets; and (4) managed to sell a higher percentage of products with relatively better profit margin contributions to maintain a stable profit margin.

The Group has remained vigilant in controlling operating expenses. Total expenses, including research and development cost ("R&D expenses"), selling and distribution expenses ("S&D expenses") and administrative expenses, were US$28.6 million, up by US$2.6 million, representing a 10% increase over last year. During the year, the Group has relaxed an array of expense control and belt tightening measures noted in 2009 report.

The Group continued to invest in R&D and business development, accounting for around half of total expenses incurred in 2010. The Group remained selective in its R&D spending. R&D expenses were US$15.1 million which rose by about 6% over the spending in 2009.

S&D expenses were increased by US$1.4 million, up 43% from 2009, to support the sales growth of 2010 and beyond.

Administrative expenses remained stable with slight increase of US$0.4 million, up 4% year-on-year after the gradual relaxation of certain belt-tightening measures in effect since 2H 2009.

During the year, the Group recognized a net finance income of US$4.7 million (2009: US$6.8 million), of which a US$3.2 million gain on a disposal of available-for-sale financial assets ("AFS") and US$1.6 million from interest income and earnings from financial assets. A net unrealized loss of US$0.1 million was noted from the mark-to-market valuation of the investment in financial assets at fair value through profit or loss ("FVTPL") portfolio as at 31 December 2010 (2009: net unrealized gain: US$3.4 million).The Group also noted US$1.0 million (2009: US$1.9 million) for the impairment and the sharing of losses of investments in associated companies.

Profit before income tax was US$0.7 million (2009 loss: US$0.5 million).The Group recorded a net profit attributable to the Company's equity holders of US$1.0 million (2009: US$0.7 million, which included a special tax credit of US$1.2 million).

Liquidity and Financial Resources

Net cash used in operating activities during the year was US$2.4 million (2009: US$10.1 million). Total cash and bank deposits and equivalents (including other financial assets) of the Group amounted to US$79.6 million at year-end, compared to US$92.8 million as at 31 December 2009. The change in cash position was mainly a result of (1) net outflow from operations, which amounted to US$2.7 million because of a net increase in working capital; (2) dividend payment of US$3.2 million; (3) investment in equipment of US$4.1 million; (4) net increase of investment in FVTPL of US$5.0 million; (5) interest received of US$1.6 million; and (6) payment of US$0.2 million of an operating lease in respect of the land use rights in Beijing, Mainland China ("China").

Regarding the use of cash reserves, the Group will continue to allocate funds for product development, securing production capacity, strengthening infra-structure in mainland China to broaden its customer base and capture market and sales opportunities, entering into strategic corporate ventures and meeting general corporate purposes. As at 31 December 2010, the Group had no major borrowings other than US$0.8 million in a mortgaged bank loan for the purchase of office property in Hsinchu, Taiwan. The Group's cash balance was mainly invested in various bank deposits.

Most of the Group's trade receivables and trade 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 year, the Group did not use any derivative instruments to hedge against foreign currency exposure as the Directors considered the exposure to be insignificant.

To retain the current year's earnings, the Board of the Company recommended no final dividend payable for the year ended 31 December 2010.

Capital Expenditure and Contingent Liabilities

On 17 March 2010, Advanced Photoelectronic Technology Limited ("APT"), one of the associated companies that the Group held 20.6% equity interest as at 31 December 2009, issued 4,120,098 new shares to strategic investors. As a result, the Group's holding in APT was diluted to 10.3%. APT would no longer be accounted for under equity method of accounting as the Group has had no significant influence over APT since this issue of shares. At the same time, the Group recognized US$0.6 million in profit arising from the transaction, which represented the difference between the fair value of the retained investment in APT and carrying amount of the investment at the date when significant influence ceased. The Group's retained investment in APT was subsequently recognized as an available-for-sale financial asset in the consolidated balance sheet at a revised carrying amount represented by the fair value of the retained investment at the date when significant influence ceased.

On 19 March 2010, the Group set up a new subsidiary, namely Solomon Systech (Beijing) Limited ("SSBJ"), in Beijing, China with registered capital of US$8.0 million. US$4.2 million has been injected into the entity as at 31 December 2010. The balance of registered capital is to be paid up by March 2012.

On 4 June 2010, the Group entered into the Sale and Purchase Agreement for the disposal of the entire interest in an available-for-sale financial asset for a consideration of US$5.5 million, which is higher than the carrying value (amounting to US$2.3 million) on the balance sheet. The disposal was completed on 30 November 2010 and the total consideration was received on 3 January 2011.

On 8 November 2010, SSBJ successfully tendered for the land use rights, in Beijing, China, at an operating lease amount of approximately US$1.2 million. CNY1.6 million (approximately US$0.2 million) was paid in October 2010 and the balance as required for the operating lease was settled in January 2011.

In 2010, capital expenditure was US$5.3 million, the majority of which was related to the Group's set up and the prepaid operating lease of the land use rights in Beijing mentioned above, purchase of equipment in the Group's manufacturing subsidiary in Dongguan and licenses for product developments.

As at 31 December 2010, there was US$2.3 million capital expenditure approved but not contracted for in respect of the preliminary set up of the land in Beijing, China to prepare for construction.

Aside from the aforesaid, the Group had no other material capital commitment or contingent liability.

BUSINESS PERFORMANCE AND OUTLOOK

Product Shipment

The Group shipped a total of 142.2 million display IC units during the year, representing a year-on-year increase of 53% (2009: 92.7 million units). Mobile Display business unit included STN / TFT LCD driver ICs and touch panel ICs. The total unit shipment of Mobile Display was increased by 30% to 72.1 million units (2009: 55.5 million units) for the year. The increase was mainly due to upside demand for smartphones equipped with bigger displays and new touch panel features.

Advanced Display business unit included OLED display product family and new display product family. The Advanced Display IC shipments increased to 67.0 million units, up 94% versus 2009 as OLED display technology continued to expand into new applications and matured as a cost competitive and value-added solution, replacing some of the applications that originally employed small LCD panel. The shipment of new display ICs also showed significant improvement as their application in electronic shelf labels was gaining acceptance in the market in 2010.

Large Display business unit commenced its operation in Beijing in 2010 and had delivered a small quantity of new large display TFT driver samples to customers for qualification in the 2H 2010.

Shipments of Display System Solution were up 16% to 2.9 million units per its increasing business on the relatively high unit price products: MagusCore™ multimedia system solution, image processor, graphic controller and MIPI IC.

The Group's Green Power business also shipped an initial volume of LED driver IC and LED power module in 2010.

Shipment breakdown by business units is as follows:

Units Shipped (million)	**2010**	2009	Change
Mobile Display	**72.1**	55.5	30%
Advanced Display	**67.0**	34.6	94%
Large Display	**0.0**	0.0	—
Display System Solution	**2.9**	2.5	16%
Green Power	**0.2**	0.1	100%
Total	**142.2**	92.7	53%

Business Relationship

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

For Display IC business, the Group currently serves most of the major display module makers in the world. We continue to focus on approaching both display module makers and end-product manufacturers directly to ensure we deliver the most appropriate product solutions and value-added services to them. During the year, the Group further strengthened relationship with leading customers and top-tier end-product manufacturers from China, Europe, Japan, Korea and Taiwan.

Regarding System Solution business, the Group provides customers with total system solutions in two focus areas: Display System Solution and Green Power. Display System Solution supports specific multimedia applications such as mobile internet devices ("MID"), pico-projectors, eBooks, personal navigation devices ("PND") for global positioning system ("GPS") and mobile digital TVs ("MDTV"). Working in alignment with independent design house ("IDHs"), the Group offers timely and total system solutions to original design manufacturers ("ODMs"). In 2010, the Group's MagusCore™ multimedia system solution had several design-win in advanced pico-projectors and MID. Green Power provides lighting system solutions to the emerging green power market including LED lighting (indoor and outdoor) and LED backlight units. In collaboration with lighting system design houses, we were able to enlarge our total solutions offering and broaden our customer base for emerging market during the year. The leading-edge technology in the system solutions business unit of the Group has further reinforced our business relationships with existing customers while attracting new key customers.

Research and Development

Research and development capability is a core competence of the Group. Continual investment in targeted areas testifies to the Group's determination to develop and offer innovative products, expand business, capture new opportunities and stay ahead of the competition. To support business growth and stay competitive in the market, the Group has been relentlessly enhancing the features of existing products and developing new products. Numerous intellectual properties ("IP") were developed or under development during the year. They included (1) semiconductor IP such as second generation


SIGN FOR
SUCCESS

Research and Development (continued)

image data compression for display memory saving, non-flickering frame rate control ("FRC"), 4-channels MIPI/MDDI high speed serial interface, intelligent AXI bus manager, SDRAM controller for mDDR and DDR2, and universal non-flicker LED lighting illumination brightness control; (2) application IP including multi-touch capacitive panel sensing technology, full-HD video post-processing engine, HD digital-video input processor, full-HD LCD controller, dual-display LCD controllers for 3D, ebook accelerator engine; and (3) system IP like Android 2.1 software platform for mobile multimedia products, 16-bits MCU with configurable DSP and development platform, as well as M4/T4 standard for hearing aids for elderly phone.

In 2010, the Group had four patents granted for display driving IPs and two patents filed for operating capacitive touch panel and image compression technology with patent offices in USA, China, Taiwan, Korea and Europe. We also published a technical paper covering the topic on the challenges and opportunities for China IC design in relation to LCD TV development in China in 2010. Also, the Group released several articles to the technology media to share our views about the global and China electronics industry in 2010, as well as our know-how on multimedia solutions for Android applications and dimmable LED solutions.

The Group spent roughly US$15.1 million on research & development in 2010, representing about 53% of total expenses in 2010 and 18% of sales for the year. As at 31 December 2010, the Group had a research and development workforce of over 235, representing approximately 49% of our entire staff. The personnel mix included IC designers, product engineers as well as system application and software engineers to meet the requirements for operating total system solution business. The Group's R&D team continually designs products using various wafer technologies as advanced as 90nm. We also have specialist teams in Hong Kong, Beijing, Shenzhen and Singapore possessing expertise in mix-signal high-voltage IC design, VLSI (Very-large-scale-integration) design, application software design, system applications and wireless technology.

Human Resources

As at 31 December 2010, the Group had a work force of 480 employees, 44% were based in the Hong Kong head office and the rest were located in China, Japan, Singapore, Taiwan and the USA. Overall, there was a 13% increase in headcount compared to last year. The increase was mainly from the production side of the Group's subsidiary in Dongguan and new business centre in Beijing.

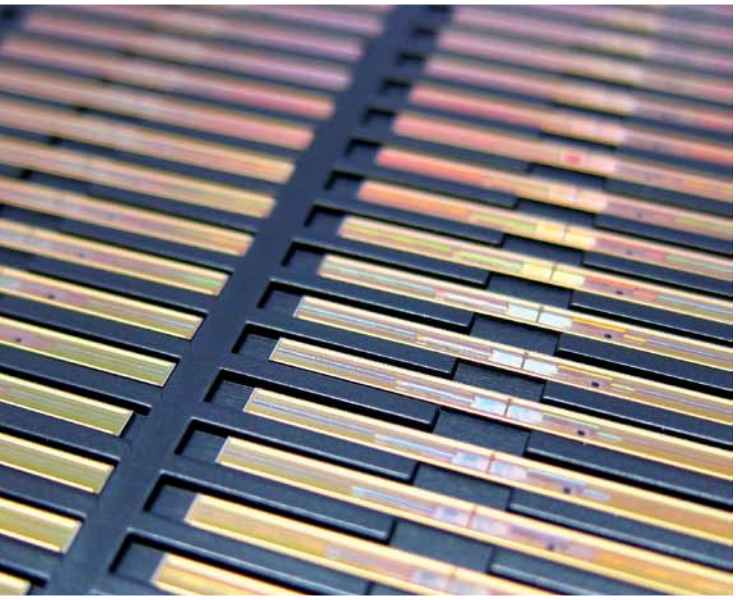
As a technology company that relies on intellectual excellence, we highly value our human resources. To reward and retain talent, the Group offers competitive remuneration to employees and constantly provides employees with training, career development programs and a first-rate working environment to make sure they enjoy working with the Group and contributing their efforts to the Group's success.

In 2010, salary reduction for Executive Directors and certain senior management continued as part of cost control measures.

New product introduction bonus and first sales incentive, which aims at driving the success of new product development and new business, remained in place and were paid to certain employees in 2010. Selected employees were granted shares under the Share Award Plan, subject to vesting, to recognize their past performance and contribution, and served as an incentive for their continuing contribution to the Group.

Prospects

With the book-to-bill ratio close to 1.0 as at 31 December 2010, 1H 2011 is expected to require our quick response to meet market trends and demand so as to generate incremental revenue with the new products developed. The Group intends to continue our march forward by delivering innovative industry-leading ICs and new system solutions for emerging high-growth applications, expanding our customer base and further developing our business in the emerging China market. We intend to keep on diversifying our product portfolio and provide fast turnkey solutions to customers. As at 31 December 2010, the Group registered a backlog of orders at around 28.6 million units for 1H 2011.



TFT LCD Driver IC

Touch Panel IC

Applications of Multi-touch IC Technology

Android Phone

DISPLAY IC BUSINESS

Mobile Display

The Mobile Display business unit provides display driver ICs and touch panel ICs for small to medium size LCD displays found in mobile phones, smartphones, tablet PCs, PND, audio/video ("AV") applications, MIDs and other portable equipment. This unit supports key technologies including STN / TFT LCD and capacitive touch panel, for monochrome and color displays as well as displays with touch panel functions.

The Group believes there is a huge market potential for smartphones, tablet PCs and MID that come with high definition ("HD"), medium size display and multi-touch functions. Also, the market growth of capacitive-type touch panel to replace resistive-type will accelerate in 2011. Hence, the Mobile Display business unit will continue to develop new generation display IC products to support higher display resolution and bigger display size, including multi-touch capacitive panel controllers for display ranged from 3" to 12" and TFT driver controllers for HD display.

As the Group continues its efforts to advance its technology and introduce cutting-edge products, the Mobile Display business unit has also started the development of new display ICs to support the next generation of 3D displays.

Super Bright OLED Module

OLED Mobile Phone

Electronic Shelf Labels

DISPLAY IC BUSINESS (continued)

Advanced Display

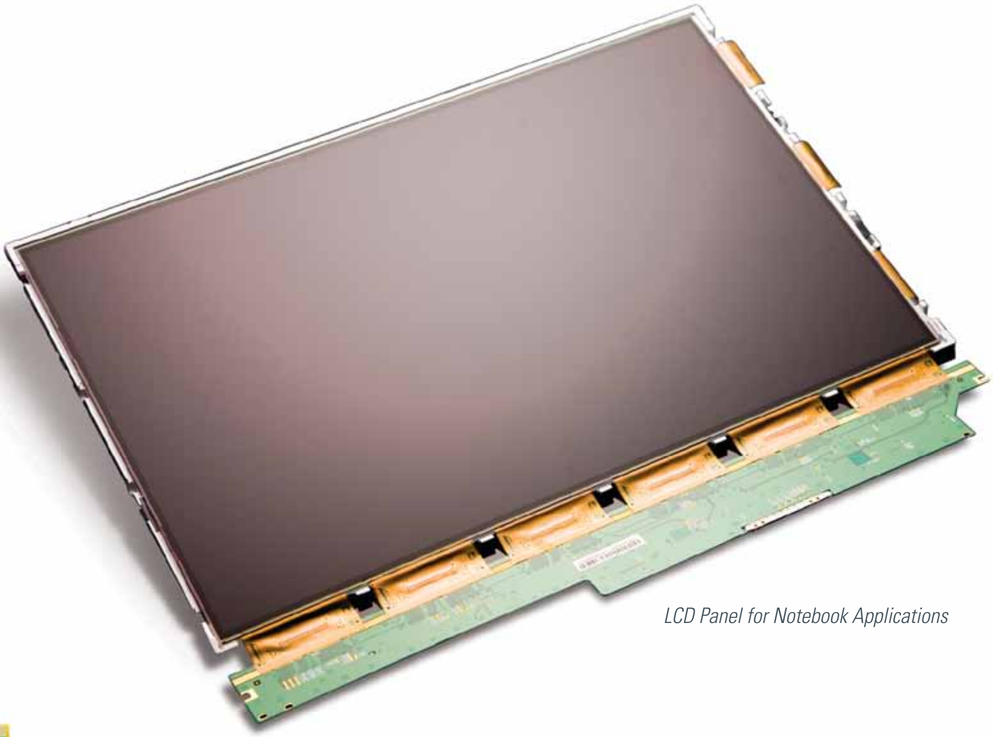
The Advanced Display business unit groups together OLED Display product and New Display product families.

The Group continues to be the leader in the Passive Matrix OLED ("PMOLED") display IC market and has shipped over 200 million units of IC over the past 10 years.

The OLED Display business has extended its applications from consumer products to industrial equipment and health care products. The product portfolio of PMOLED driver ICs includes icon, mono, grey scale and full color to built-in Character ROMs. As the self-emissive PMOLED display is readable under any light condition and inherent a wide operating temperature range, it is suitable for the blooming market of smart power meter which requires reliably for outdoor applications even under severe weather condition.

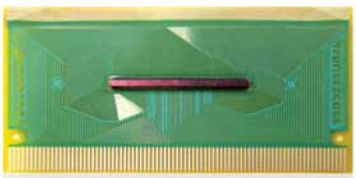
The market for OLED display ICs in general is expected to carry on its stable growth in 2011, considering that the increasing maturity of the OLED display technology for mass production and the fact that OLED display keeps on expanding into new applications targeting different market segments from mobile phones and consumer electronics such as MP3 players, Bluetooth headsets and pocket WiFi, to industrial applications including power meters, USB bank keys, as well as office equipment and health care products.

For the New Display business, the Group maintains a positive view on the potential of ICs for this emerging business as more applications recognize the value of the new display technology, of which e-paper display is perhaps the best known kind. The Group is shipping a large volume new display ICs for electronic shelf labels, e-advertisements and USB memory devices and the design-in work will continue in 2011 involving electronic shelf labels, e-advertisements, health care products, mobile phones, portable devices, e-cards, and more.



LCD Panel for Notebook Applications

Source Driver IC



Gate Driver IC

The Group continues to enrich the product portfolio of New Display business by offering different driver IC solutions for direct segment and active matrix electrophoretic, cholesteric, zenithal bistable display and other bistable display technologies.

All-in-all, the Group believes the demand for new display ICs will surge and it will bring in new revenue streams through tapping into emerging market and new applications. Thus the Group will continue researching these and other technologies and expanding the business to ensure that we stay ahead of the competition.

Large Display

The Large Display business unit addresses large display applications such as LCD TVs, LCD monitors and notebook computers. A dedicated team has been set up and moved-in to our new Beijing Technology and Business Center in 2010 in order to capture the booming large display manufacturing market in China. In 2H 2010, a new set of Source Driver and Gate Driver ICs to support our business partners in large display were developed and were undergoing customers' qualification. Initial volume shipment is to commence later this year. The team intends to work closely with the Green Power business unit on LED backlighting to provide total TV display solutions to major customers in China and Asia.

MagusCore™ Multimedia Processor

Pico-projector

eBook

Android 2.x Mobile Internet Device

SYSTEM SOLUTION BUSINESS

Display System Solution

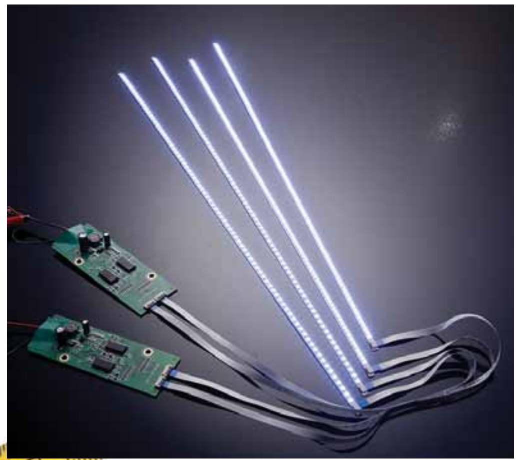
The Display System Solution business unit is a key part of the Group's success in transforming its business from IC component sales to delivering total system solutions. This business unit has shipped more than 2.9 million IC units in 2010 and the Group believes it will bring in diverse sources of revenue stream with its relatively high unit price products and gradually become an important contributor to the Group's financial performance.

The Display System Solution business unit delivers total system solutions that can (1) shorten end product time-to-market with mature software platforms; (2) generate high-performance multimedia internet solutions; (3) increase display image quality and functionality; (4) support high-speed mobile interfaces; and (5) integrate advanced wireless communication technology.

Products in production such as image processors and graphic controllers are supporting the latest consumer applications including mobile phones, baby monitor, MP4 players, PNDs, digital photo frames and other portable consumer electronic devices. Given the continual design-wins for new display controller products, the Group expects volume shipments continue for the segment in 2011.

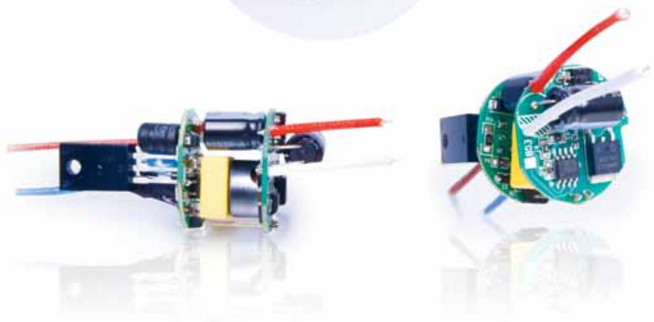
With an early leadership in MIPI, the MIPI-related business is expected to continue to have more design-win projects in the high-speed mobile interface market in 2011.

The Group continues to expand its product offering on the high-performance MagusCore™ multimedia system solution through the launch of a third generation multimedia chip, thereby gaining new business. In 2010, several top-tier customers had successfully launched new, advanced Android-based MID and pico-projectors incorporating the MagusCore™. In 2011, the Group will further promote to the market the capability of MagusCore™, aiming at Android-based applications for the 3CC – Converged Communication, Cloud Computing and Consumer Content – enabling more advanced high volume applications such as eBooks readers, MIDs, surveillance devices and smart TVs. The Group believes the MagusCore™ system solution is poised to capture the market and help accelerate development of its business.



LED Backlight Unit

Dimmable LED Light Bulb



Dimmable LED IC and Power Module

Moreover, the Display System Solution business unit has a strong competence in the design, development and integration of advanced wireless communication technology and devices. The unit also specializes in designing new mobile multimedia internet application solutions for end products including dual mode mobile phones, elderly phones, global positioning system ("GPS") for PNDs and mobile multimedia broadcasting technology for mobile digital TVs. It has successfully launched a few more new mobile phone solutions for dual mode and elderly market segment for top tier mobile brands' products in 2010. It has also won several design-ins on MID and pico-projector applications with its Android-based mobile system solutions. To seize the booming market opportunity for Android-based devices, the unit is working on upgrading its Android 3G mobile system solutions to keep ahead of the market trend.

Green Power

The Green Power business unit focuses on providing energy-saving LED driver ICs and LED power module solutions for LED indoor and outdoor lighting and LED backlighting unit ("BLU"). The Group sees a booming LED lighting market as energy saving becomes a hot topic to reduce carbon emissions and address global warming concern, as well as to improve product performance. With the recent breakthrough on LED technology, LED can provide long life, high reliability and high cost-performance value with significant energy saving feature. These advantages render LED an ideal replacement for the traditional lighting and backlighting applications and to become the mainstream source for illumination in the coming years.

Addressing this significant business opportunity, the Green Power business unit has developed several new products and solutions such as digital dimmable LED lighting ICs, LED BLU ICs, LED power modules and light-bar solutions for general lighting, street lighting and LCD monitor/TV applications. It has started to ship a small production quantity in 2010 to customers overseas.

As this business is still at its initial stage of development, there is considerable room for growth. Therefore, the Group will keep working on new products, new technologies and new market development in 2011 to gain market share from this new market segment. Also, in order to shorten the product development cycle and market penetration time, the Green Power business unit will build alliances with potential business partners from both upstream and downstream within the supply chain to co-develop new products and meet the time-to-market requirements.

RESPONDING TO OUR WORLD

Supported the Community Chest's "Dress Special Day"

Tree Planting with Family

Named as a "Caring Company" for Six Consecutive Years

The Group is committed to being a "green" partner with our customers and society. Since Solomon Systech earned ISO14001 certification in 2007 for implementing a Quality and Environmental Management System ("QEMS"), we have passed all four quality audits without a major non-conformance ("NC"). The QEMS has enabled the Group to develop and implement management and operational policies that meet legal requirements for protecting the environment and minimizing pollution. We had also extended our green mission to entail compliant with the RoHS[1] Directive and participation in the green movement of the electronic industries.

The Group has been named as a "Caring Company" for six consecutive years since 2005 by the Hong Kong Council of Social Service in recognition for our active involvement in social and community-related activities. The Group and our staff raised a total of HK$248,000 donation via different events in 2010 including "Skip Lunch Day" and "Dress Special Day" of the Community Chest, and also a donation to the Charles K. Kao Scholarship Endowment Fund.

In addition to our involvement in community and charitable activities, the Group is also active in a range of activities to protect the environment. Many green initiatives have been carried out in the past year with the aim of cultivating green practices in both our business operations and daily lives. On 26 March 2010, the Hong Kong Head Office and other regional offices participated in Earth Hour activities through the symbolic dressing in black and turning the lights out for one hour at lunchtime.

We also promote energy conservation in the workplace through a variety of campaigns such as weekly green tips, posting lights-off signage, sending "computer-off/laboratory equipment-off/devices-unplugged" reminders to staff before long weekends and lights-out sessions in our offices in addition to the Earth Hour. Through these efforts we have successfully eliminated 7% of our electricity consumption in 2010. We have also converted some traditional paper filing and approval systems to e-filing and e-approval, promoted less printing while using double-side printing if needed. These measures helped us reduce our paper consumption last year by as much as 13%. And we continued to use only Forest Stewardship Council[2] ("FSC") papers for printing in the office and printing the Group's financial reports and other corporate literatures.

The Group sponsored scholarship for university students in Hong Kong at a total amount of HK$20,000 in 2010. As a responsible hi-tech company, Solomon Systech also advises the industry, local government and universities, playing a part in nurturing growth of the sector and contributing to the well-being of society.

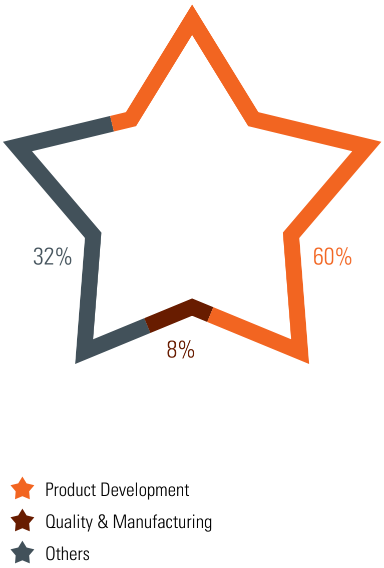
1 An European Union's Directive of Restriction on Hazardous Substances (2002/95/EC), which became European Law in February 2003 and formally effective on 1 July 2006, restricts the use of six hazardous materials (lead, mercury, cadmium, chromium VI, PBB and PBDE) in the manufacture of various types of electronic and electrical equipment.

2 The Forest Stewardship Council (FSC) is an international organization that brings people together to find solutions which promote responsible stewardship of the world's forests. http://www.fsc.org/en/


LIVING
BETTER

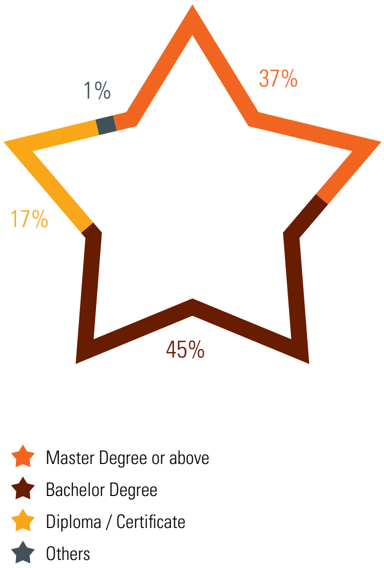
EMPLOYEES

Function



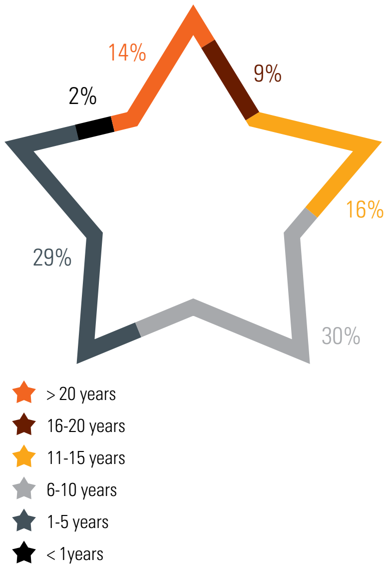
- 267 technical engineering staff
- Total 391 staff[1] worldwide as at 31 December 2010

Education



- 37% Master Degree or above
- 82% Degree or above

Experience



- Management team > 25 years of working experience
- Average 10.9 years of working experience

1 Data in all the charts exclude manufacturing subsidiary

The Group's most important assets are its employees. Thus, offering the right training to employees to help them realize their full potential and ability to cope with changes and challenges tops the operational agenda of the management. In 2010, the Group spent about HK$400,000 on training and related sponsorship. A total of 24,609 hours of training, equivalent to an average of 51 hours a year per person, were provided to employees. The various topics covered included language skills, product and technical knowledge, marketing and leadership skills, and environmental protection. Training was conducted with external consultants and internal experienced employees as instructors. Apart from in-house training, the Group encourages employees to take external job-related courses and sponsors a portion of the course fee.

All new employees are required to take mandatory programs on topics including internal control and information protection, ISO and quality management system, as a part of job orientation. Specifically designed for new hires, these programs familiarize them with the Group's operations and emphasis on quality. All training and development programs primarily serve one or more of three main purposes: enhancing an employee's skills, strengthening an employee's understanding of the Group's culture and internal procedures, and providing professional development to employees.

More than 80% of the Group's employees hold graduate degrees or above, and more than one-third have master's degrees or higher academic qualifications. The Group's emphasis on research and development is also reflected in the make-up of our workforce, with 60% being engineers who specialize in product development. The entire team has, on average, 10.9 years of working experience.

Basketball Game	*Company Junk Boat Trip*
10 Years Service Awards	

Remuneration of employees includes basic salaries, bonuses and fringes. The Group believes in motivating, retaining and rewarding employees and attracting new talents with the right incentives, cash or share based, to make sure their interests are aligned with those of the Group. In addition to the two programs (Share Option Scheme and Share Award Plan) in place, the Group also implements a cash reward program, namely the NPI Incentive Program, to reward development teams for success in introducing new products to the market that excel in time to market and revenue contribution. There are also patent awards and 1st order award, which aim to encourage and reward technological innovation, time-to-market and revenue generation for new products.

Apart from implementing measures and schemes to encourage dedication to work, the Group believes building a corporate culture that creates an intimate team is also very important. The Staff Recreation Club of the Group has thus been active in organizing activities for employees including games of sport such as basketball, badminton and tennis, and other recreation functions such as Anniversary dinner, Christmas gathering and junk boat trips. The Group believes such activities can enhance relationship among employees and help to foster a sense of belonging to the "big family".

The Group also cares about work safety and the health of our staff. Occupational safety and health measures are in place to facilitate assessment of workstation risks and related occupational safety standards, and staff members are provided with health training.

The Group values our pool of industry talents and rewards our members for excellent performance. Through offering employees job satisfaction, we hope to instill in them a sense of ownership of the company and our mission.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Front row from left: Mr. LAI Weide; Mr. LI Xiaochun; Dr. LAM Pak Lee; Dr. Humphrey LEUNG (Managing Director); Mr. Patrick SUN (Chairman); Mrs. Keziah FUNG

Back row from left: Mr. SHEU Wei Fu; Mr. LAI Woon Ching; Mr. Frankie WONG; Mr. Patrick CHOY; Mr. ZHAO Guiwu; Mr. HUANG Hsing Hua; Mr. Kenny CHEUNG; Mr. LO Wai Ming

Non-executive Chairman

Mr. SUN, Patrick, aged 52, is the Non-executive Chairman and an Independent Non-executive Director ("INED") of the Company. He is currently an Independent Non-executive Director of China Railway Group Limited (HKSE: 0390), Trinity Limited (HKSE: 0891) and Sihuan Pharmaceutical Holdings Group Ltd. (HKSE:0460) respectively. Mr. Sun is the Vice-Chairman of the Chamber of Hong Kong Listed Companies. He was a member of Takeovers & Mergers Panel and the Takeovers Appeal Committee, Deputy Chairman of the Listing Committee and a member of the Council of The Stock Exchange of Hong Kong Limited. From 2000 to 2002, he was also the Senior Country Officer and Head of Investment Banking for Hong Kong of JPMorgan Chase. He was the Chief Executive Officer and Executive Director of Value Convergence Holdings Limited (HKSE: 0821), an Executive Director of SW Kingsway Capital Holdings Limited (HKSE: 0188), Group Executive Director and Head of Investment Banking for Greater China of Jardine Fleming Holdings Limited, Independent Non-executive Director of Link Management Limited (HKSE: 0823), and Independent Non-executive Director of Everbright Pramerica Fund Management Co., Ltd.

Managing Director

Dr. LEUNG Kwong Wai, aged 54, is the Founder and Managing Director of the Group. He also serves as the Group Chief Executive Officer ("CEO"). Dr. Leung is also a director of EPD Technology Limited and Shenzhen agio Research and Development Co., Ltd respectively, the associated companies of the Group and a director of each of the wholly-owned subsidiaries of the Group namely Ample Pacific Limited, Broadwood Global Limited, Cornway International Limited, In Achieve Limited, Mentor Ventures Limited, Pac-Pacific Limited, Solomon Systech Inc., Solomon Systech Limited, Solomon Systech Japan Company Limited, Solomon Systech Pte. Ltd., Solomon Systech Taiwan Limited, Systech Technology China Limited, WE3 Ventures Limited and WE3 Technology Company Limited.

Prior to 1999, Dr. Leung was the Director of Operations of Motorola Semiconductors Hong Kong Limited. Currently, he is Director of the Society of Information Display, Hong Kong Chapter, Vice Chairman of the Hong Kong Electronic Industries Association, Vice President of the Hong Kong Semiconductor Industry Council, Vice Chairman of the Hong Kong Electronics Industry Council of the Federation of Hong Kong Industries, Director of the Board of Directors of Hong Kong Applied Science and Technology Research Institute Company Limited and Director of the Board of Directors of Nano and Advanced Materials Institute Limited. Dr. Leung received the Young Industrialist Award for Hongkong in 2001, the Outstanding Polytechnic University Alumni Award in 2003, the Outstanding Achievement Award in the 10 Years' China IC Design Industry Development in 2004, and was conferred Honorary Fellowship by the Hong Kong University of Science and Technology in 2007.

Executive Directors

Mr. CHEUNG Wai Kuen, Kenny, aged 45, joined the Group since 2008 and is currently the Vice President, Business Operations of Solomon Systech Limited, a director of WE3 Technology Company Limited, 維深通訊（深圳）有限公司 and 維駿通訊產品（深圳）有限公司, the wholly-owned subsidiaries of the Group. Mr. Cheung resigned as an Executive Director of the Company so as to maintain a suitable board composition with effect from 1 December 2010. Mr. Cheung continues to be member of senior management in the Group.

Mr. HUANG Hsing Hua, aged 52, joined the Group since 2003 and is currently the Vice President, Sales of Solomon Systech Limited. Mr. Huang is a director of Solomon Systech Limited and Solomon Systech Taiwan Limited, the wholly-owned subsidiaries of the Group. Mr. Huang resigned as an Executive Director of the Company so as to maintain a suitable board composition with effect from 1 December 2010. Mr. Huang continues to be member of senior management in the Group.

Mr. LAI Woon Ching, aged 57, joined the Group since its inception in 1999 and is currently the Vice President, China Operations & Quality and Manufacturing respectively of Solomon Systech Limited. Mr. Lai is a director of each of the wholly-owned subsidiaries of the Group namely Cornway International Limited, Jing Guang Semiconductors (Dongugan) Limited, Solomon Systech (Shenzhen) Limited, Systech Technology China Limited and Solomon Systech (Beijing) Limited.

Mr. LO Wai Ming, aged 48, joined the Group since its inception in 1999 and is currently the Vice President, Business Operations of Solomon Systech Limited and is a director of Kitronix Limited and Beijing LED Lighting Engineering Co. Ltd, the associated companies of the Group. He has been a director of Advanced Photoelectronic Technology Limited, the former associated company of the Group till 16 March 2010. Mr. Lo is also a director of each of the wholly-owned subsidiaries of the Group namely Broadwood Global Limited, Cornway International Limited, Mentor Ventures Limited, Solomon Systech Japan Company Limited, Solomon Systech (Shenzhen) Limited and Solomon Systech Taiwan Limited. Mr. Lo resigned as an Executive Director of the Company so as to maintain a suitable board composition with effect from 1 December 2010. Mr. Lo continues to be member of senior management in the Group.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Non-executive Directors

Dr. LAM Pak Lee, aged 61, was the Non-executive Chairman of the Company from 2004 to 2006. He has resigned his position as Non-executive Chairman with effect from 1 January 2007 but remains as a Non-executive Director of the Company. He is also the Founder, Chairman and CEO of Quanta Computer Inc. (TSE: 2382), and Chairman of Quanta Storage Inc. (TSE: 6188). Dr. Lam was a director of Fubon Financial Holding Co., Ltd. (TSE: 2881)

Mr. SHEU Wei Fu, aged 41, was appointed as Alternate Director to Dr. Lam Pak Lee, who is a Non-executive Director of the Company, with effect from 1 July 2007. He has been the Special Assistant to Dr. Lam since 1998. Mr. Sheu has not acted as a director in any other listed public company in the last 3 years.

Mr. CHANG Ching Yi, Steven, aged 49, has been a Non-executive Director of the Company since 2003. . Mr. Chang retired from office after the close of the 2010 Annual General Meeting on 9 June 2010.

Mr. LAI Weide, aged 51, was appointed as a Non-executive Director of the Company on 11 October 2010. He is the Deputy General Manager of China Electronics Corporation ("CEC"), the substantial shareholder of the Company, the Chairman of Nanjing Electronics Information Industrial Corporation, the Chairman of Nanjing Panda Electronics Company Limited (SSE: 600775 & HKSE: 00553) and Nanjing Huadong Electronics Information & Technology Co., Ltd. (SZSE: 000727). He was the General Manager of the Assets Management Department of CEC, Chairman of the supervisory committee of China National Software and Service Company Limited (SSE: 600536), a director of Shanghai Huahong (Group) Co., Ltd. and a director of Shenzhen SED Electronics Group Co., Ltd. He was also appointed as a member of the Remuneration Committee of the Company.

Mr. LI Xiaochun, aged 46, was appointed as a Non-executive Director of the Company on 11 October 2010. He is the Chief Financial Officer in CEC. He has been a director of Industrial Bank Co. Ltd. (SSE: 601166), and retired from the board of the bank effective 28 October 2010. He was the General Manager of the Finance Department of China Aerospace Science & Industry Corporation, the Chairman of Aerospace Science and Industry Finance Limited, a director of Aerospace Information Co., Ltd., the Chairman of China Electronics Financial Co., Ltd. and a director of Nanjing Electronics Information Industrial Corporation. Mr. Li was also appointed as a member of the Audit Committee of the Company.

Mr. ZHAO Guiwu, aged 48, was appointed as a Non-executive Director of the Company on 11 October 2010. He is the General Manager of the Integrated Circuit Business Group of CEC, the Chairman of Shanghai Belling Co., Ltd. (SSE: 600171), Shanghai Huahong Integrated Circuit Co., Ltd. and Beijing Huahong IC Design Co., Ltd. respectively, the Non-executive Vice-chairman of China Electronics Corporation Holdings Company Limited (HKSE: 00085), and the Vice-chairman of Shanghai Hua Hong (Group) Co., Ltd. He was the Deputy Manager of the Strategic Planning Department and the General Manager of the Planning Development (Strategic Projects Department) of CEC, the Chief of the Planning Division of the Department of Corporate Planning of China Electronics Technology Group Corporation and the Deputy General Manager of CETC (Deqing) Huaying Electronics Co., Ltd. He was also appointed as members of the Investment Committee and Nomination Committee of the Company respectively.

Independent Non-executive Directors

Mr. SUN, Patrick

(refer to Non-executive Chairman on page 31)

Mr. CHOY Kwok Hung, Patrick, aged 68, has been an Independent Non-executive Director of the Company since 2004. Mr. Choy is a director of Beijing LED Lighting Engineering Co. Ltd., an associated company of the Group. Mr. Choy retired from Motorola as its Corporate Vice President. He is currently an Executive Director and Chairman of China Financial Leasing Group Limited (HKSE: 2312), the Founder and Chairman of Global Strategy Group. Mr. Choy is a member of the Chinese People's Political Consultative Conference (CPPCC), National Committee since 2003. Mr. Choy was an Independent Non-executive Director of Road King Infrastructure Limited (HKSE: 1098) and Evergro Properties Limited which shares are listed on the Singapore Exchange (D09.SI).

Mr. WONG Yuet Leung, Frankie, aged 62, who had been a Non-executive Director of the Company since 2004, was re-designated as an Independent Non-executive Director with effect from 1 January 2007. He is currently the Vice-chairman of Shui On Construction and Materials Limited (HKSE: 0983), a Non-executive Director of CIG Yangtze Ports PLC (HKSE: 8233) and a Non-executive Director of Walcom Group Limited (WALG), a company listed on the AIM Board of London Stock Exchange plc. Mr. Wong was a Non-executive Director of Cosmedia Group Holdings Limited and China Central Properties Limited, companies that were delisted from the AIM Board of London Stock Exchange plc in December 2008 and June 2009 respectively.

Honorable Adviser

Professor KAO Kuen, Charles, aged 77, who was an Independent Non-executive Director of the Company until 1 March 2008 and has been acting as honorable adviser of the Company. Known as "the father of fiber optics", Prof. Kao has been awarded the 2009 Nobel Prize in Physics.

Company Secretary

Mrs. FUNG Lui Kit Har, Keziah, aged 50, Vice President, Finance. Mrs. Fung joined Solomon Systech Limited in 2000 as Finance Director and is currently acting for the Company Secretary of the Company. Mrs. Fung is a director of Ample Pacific Limited, Pac-Pacific Limited and Solomon Systech Pte. Ltd., the wholly-owned subsidiaries of the Group.

Senior Management

Mr. KUNG Tat Wing, aged 50, Vice President, Business Operations. Joined Solomon Systech Limited in 2005 as Business Operations Director.

Mr. LEONG, John Peter, aged 50, Vice President, Corporate Development. Mr. Leong joined Solomon Systech Limited in 2006 as Corporate Development Director and is a director of EPD Technology Limited and Shenzhen aigo Research and Development Co., Ltd., associated companies of the Group. Mr. Leong is also a director of In Achieve Limited, a wholly-owned subsidiary of the Group.

Ms. CHAN Sze Yin, Yvonne, aged 42, Corporate Communications Director. With Solomon Systech Limited since its inception in 1999 as Product Marketing Manager.

Mr. CHEUNG Hung Fai, Peter, aged 51, Planning & Customer Services Director. Joined Solomon Systech Limited in 2000 as Senior Planning Manager.

Dr. LAI Wai Yan, Stephen, aged 64, Design Engineering Director. With Solomon Systech Limited since its inception in 1999.

Ms. LO Oi Yee, Mabel, aged 46, Human Resources Director. Joined Solomon Systech Limited in 2000 as Human Resources Manager.

Mr. NG Chung Yee, aged 40, Design Engineering Director. With Solomon Systech Limited since its inception in 1999 as Product Manager.

Mr. WANG Wah Chi, Raymond, aged 45, Business Operations Director. Rejoined Solomon Systech Limited in 2006.

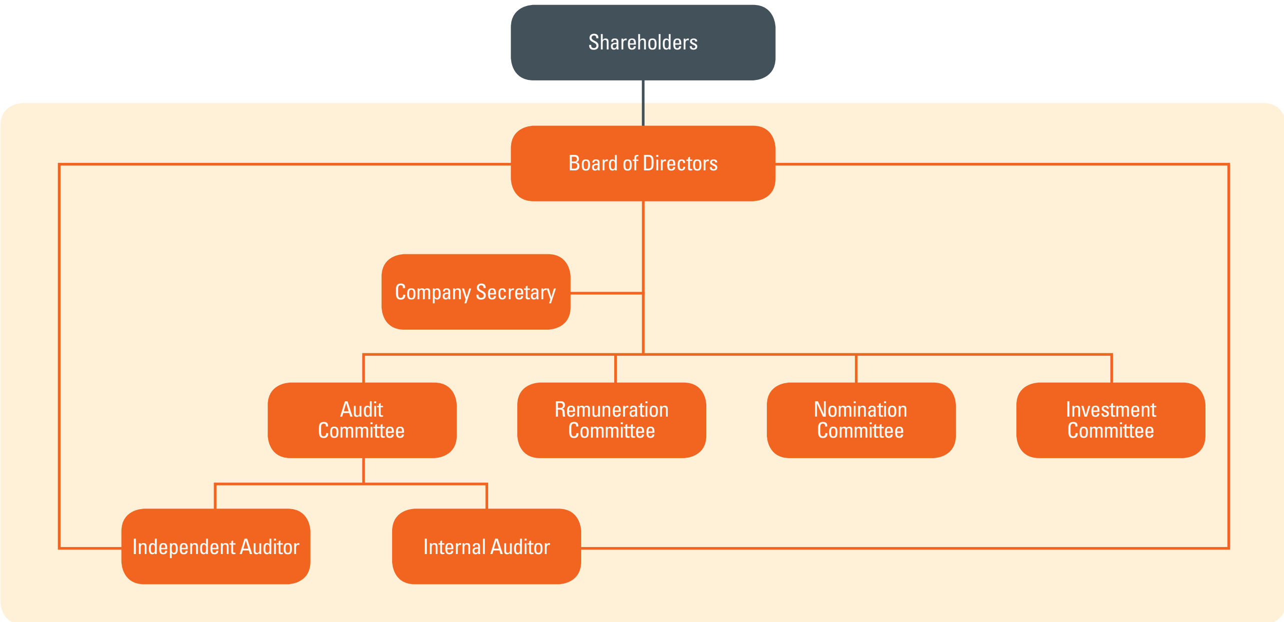
Changes in Information of Directors

Pursuant to the disclosure requirement under Rule 13.51B(1) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, changes in information of Director of our Company are as follows:

- Mr. Sun, Patrick was appointed as the Chairman of Remuneration Committee of the Company with effect from 14 February 2011 in place of the retired Director, Mr. Chang Ching Yi, Steven.
- Mr. Li Xiaochun retired as the director of Industrial Bank Co. Limited (SSE: 601166) with effect from 28 October 2010.
- Mr. Sun, Patrick is an Independent Non-executive Director of Sihuan Pharmaceutical Holdings Group Ltd. (HKSE: 0460), a company listed on The Stock Exchange of Hong Kong Limited on 28 October 2010. Mr. Sun was appointed to the Board of Sihuan Pharmaceutical Holdings Group Ltd. on 7 October 2010.
- Mr. Wong Yuet Leung, Frankie retired as the Chief Executive Officer and was appointed as the Vice Chairman of Shui On Construction and Materials Limited (HKSE: 983) with effect from 1 April 2010.
- Mr. Lai Woon Ching took up China Operations function in the Group on top of his capacity in Quality and Manufacturing. He was appointed a director of Solomon Systech (Beijing) Limited, a newly incorporated wholly-owned subsidiary of the Group in March 2010.
- Mr. Lo Wai Ming resigned as a director of Solomon Systech Pte. Ltd., a subsidiary of the group in October 2010.

CORPORATE GOVERNANCE REPORT

Corporate Governance Structure



Voluntary Key Practices Adopted by the Company

- Procedures for dealings in the Company's securities for Directors and relevant employees of the Group was adopted by the Company
- One-third of the board members of the Company was appointed as Independent Non-executive Directors
- No Independent Non-executive Directors served more than nine years
- Nomination Committee was established with specific written terms of reference which deal clearly with the committee's authority and duties
- Nomination Committee has made available its terms of reference explaining its role and the authority delegated to it by the Board of Directors

Corporate Governance Practices

The Board of Directors ("Board") and the management of the Group are committed to achieving and maintaining high standards of corporate governance, which is considered as critical in safeguarding the integrity of its business operations and maintaining investors' trust in the Company. The management also actively and constantly observes latest corporate governance developments in Hong Kong and overseas, particularly in the U.K. and U.S.A. Throughout the year, the Company has complied with all applicable code provisions as set out in the Code on Corporate Governance Practices ("Code Provisions") in Appendix 14 of The Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and there was no deviation from the Code Provisions.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code for directors' securities transactions. All the Directors have confirmed their compliance with the required standards set out in the Model Code during the year. Regarding the shares held by directors, the details are listed on page 46 in the Report of the Directors of this Annual Report. Pursuant to Appendix 14 paragraph A.5.4, the Group established its own written guidelines on no less exacting terms than the Model Code for 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. All Directors and relevant employees have conformed to the Group's own guidelines throughout the year 2010.

Board of Directors

The Board comprises two Executive Directors (including the Managing Director), four Non-Executive Directors and three Independent Non-executive Directors (including the Chairman). As at 31 December 2010, the Board comprised the following members:

Executive Directors[1]	Position	Date of first appointment to the Board	Date of last re-election as Director	Current function
LEUNG Kwong Wai	Executive Director/ Managing Director	21 November 2003	9 June 2010	• Development of corporate strategies and operation direction • Overseeing the Group's compliance and internal control matters
LAI Woon Ching	Executive Director	25 February 2004	13 May 2009	• Daily operation of the Group and strategic planning

1 Messrs. Cheung Wai Kuen, Kenny ("Cheung"), Huang Hsing Hua ("Huang") and Lo Wai Ming ("Lo") have resigned as Executive Directors of the Company so as to maintain a suitable board composition with effect from 1 December 2010. Messrs. Cheung, Huang and Lo continue to be members of senior management in the Group.

Non-executive Directors[2]	Position	Date of first appointment to the Board	Date of last re-election as Director	Experience/Profile
LAI Weide[3]	Non-executive Director	11 October 2010	N/A	• Deputy General Manager of CEC, the Chairman of Nanjing Electronics Information Industrial Corporation and Nanjing Panda Electronics Company Limited (SSE: 600775 & HKSE: 00553)
LAM Pak Lee	Non-executive Director	25 February 2004	13 May 2009	• Founder, Chairman and CEO of Quanta Computer Inc., the largest notebook computer ODM company in the world • Leader / entrepreneur in the electronics industry
SHEU Wei Fu (alternate to Lam Pak Lee)	Non-executive Director	1 July 2007	N/A	• Strategic management
LI Xiaochun[3]	Non-executive Director	11 October 2010	N/A	• Chief Financial Officer of CEC
ZHAO Guiwu[3]	Non-executive Director	11 October 2010	N/A	• General Manager of the Integrated Circuit Business Group of CEC

2 Mr. Chang Ching Yi, Steven, retired from office as a Non-executive Director on 9 June 2010.

3 Messrs. Lai Weide, Li Xiaochun and Zhao Guiwu have been appointed as Non-executive Directors of the Company with effect from 11 October 2010.

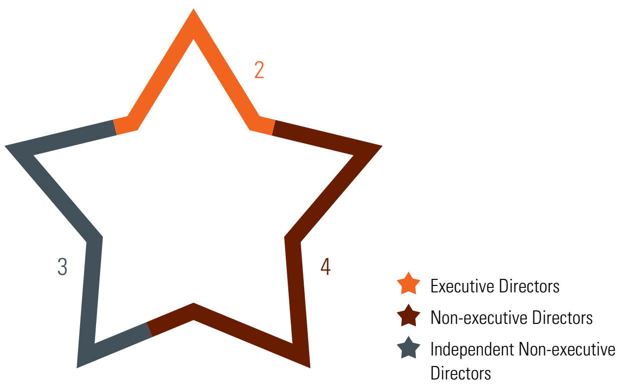
Board of Directors (continued)

Independent Non-executive Directors	Position	Date of first appointment to the Board	Date of last re-election as Director	Experience/Profile
SUN, Patrick	Non-executive Chairman/ Independent Non-executive Director	25 February 2004	9 June 2010	• Professionally qualified and experienced investment banker
CHOY Kwok Hung, Patrick	Independent Non-executive Director	25 February 2004	9 June 2010	• Corporate finance and investment at company board level
WONG Yuet Leung, Frankie[4]	Independent Non-executive Director	3 February 2004	8 May 2008	• Corporate finance and investment at company board level

4 Mr. Wong Yuet Leung, Frankie was re-designated from a Non-executive Director to an Independent Non-executive Director effective from 1 January 2007.

The size and composition of the Board are reviewed from time to time, taking into account the scope and nature of operations of the Company, to ensure that the size of the Board is adequate to provide a diversity of views and facilitate effective decision-making. The Directors come from diverse background with varied expertise in finance, industry and business fields. The biographical details of all Directors and the relationships among them are set out in the "Board of Directors and Senior Management" on pages 30 to 33 of this annual report and the Company's website. Save as disclosed in the section of "Board of Directors and Senior Management", none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

The Board



The composition of the Board is well balanced with each Director having sound industrial knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. All Directors bring a variety of experience and expertise to the Company.

Independent Non-executive Chairman and Managing Director

The roles of the Independent Non-executive Chairman (the "Chairman"), Mr. Sun, Patrick, and the Managing Director, Dr. Leung Kwong Wai are segregated as stipulated in the Listing Rules, in order to ensure a clear distinction between the responsibilities of the Chairman and the Managing Director.

There are clear demarcations of responsibility and authority between the Chairman and the Managing Director which ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.

In 2010, the Chairman, Mr. Sun, Patrick, was responsible for ensuring that all directors act in the best interest of shareholders. He was fully accountable to the shareholders and contributed to the Board and the Group on all top-level or strategic decisions. Specifically, he was assigned with four key roles to perform, namely leading the Board, advising the Group on key strategies, ensuring the Group's effective communication with stakeholders and implementing a high standard of corporate governance.

The Managing Director, Dr. Leung Kwong Wai, is responsible for managing the Group and executing the strategies adopted by the Board. He functions as the Chief Executive Officer who leads the Group's management team in accordance with the directions set by the Board. He is responsible for ensuring that a proper internal control system is in place and that the Group's business conforms to applicable laws and regulations. The Managing Director chairs the monthly operations and financial reviews and also bi-weekly management staff meetings, as well as the quarterly employees' communication meeting.

Functions of the Board of Directors

The Board is responsible for the oversight of the management of the Company's business and affairs with the goal of maximizing long-term shareholder's value, while balancing broader stakeholder interests. Schedule of matters reserved for the Board include:

- Strategy and management
- Group structure and capital
- Financial reporting and control
- Internal controls
- Major contracts

- Corporate communications
- Board membership and other appointments
- Remuneration
- Authority and delegation
- Corporate governance
- Company policies

Matters not specifically reserved for the Board and relate primarily to the daily operations of the Group are delegated to the management under the leadership of the Managing Director.

Non-executive Directors

The Non-executive Directors bring a wide range of skills, industries and business experience to the Group. At least once a year, Non-executive Directors and also Independent Non-executive Directors will have a private discussion with the Chairman on the Group's matters without the presence of the Executive Directors (including the Managing Director). In addition, Non-executive Directors, according to the Group's policy, may access the Group's employees at anytime they think appropriate. During the year, the Group's management also met with certain non-executive directors to seek their views on certain business or operational matters.

In compliance with Rule 3.10(1) of the Listing Rules, there are three Independent Non-executive Directors. Among the three Independent Non-executive Directors, Messrs. Sun, Patrick and Wong Yuet Leung, Frankie have appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

All Independent Non-executive Directors bring their wealth of experience to the Board and make active contribution to the Group. They closely monitor the Group's development and freely express their opinions at the Board meetings. All Independent Non-executive Directors, except as disclosed in this annual report, do not have any business with or financial interests in the Group and confirmed their independence to the Group pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The service contracts of Dr. Lam Pak Lee, Mr. Choy Kwok Hung, Patrick, Mr. Sun, Patrick and Mr. Wong Yuet Leung, Frankie, have been renewed for a specific term from 1 July 2010 up to 30 June 2011, subject to re-election according to the procedures set out in the Company's Articles of Association.

Mr. Lai Weide, Mr. Li Xiaochun and Mr. Zhao Guiwu have entered into service contracts with the Company for a specific term from 11 October 2010 to 31 December 2011, subject to re-election according to the procedures set out in the Company's Articles of Association.

Non-executive Directors and Independent Non-executive Directors are encouraged to take educational courses at the expenses of the Group on duties of the Board and corporate governance.

Directors' Appointment, Re-election and Removal

At every annual general meeting of the Company, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation, provided that every director shall retire from office at least once every three years or within such other period as the rules of the Stock Exchange may from time to time prescribe. A retiring director shall be eligible for re-election and shall continue to act as a director throughout the meeting at which he retires.

In accordance with Article 95 of the Company's Articles of Association, Messrs. Lai Weide, Li Xiaochun and Zhao Guiwu appointed as additions to the Board, shall hold office until the forthcoming annual general meeting and being eligible, offer themselves for re-election.

In accordance with Article 112 of the Company's Articles of Association, Mr. Wong Yuet Leung, Frankie and Dr. Lam Pak Lee will retire by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

Board Meetings and Board Practices

The Board has scheduled to meet at least four times a year, and the Board will also meet on other occasions when a board-level decision on a particular matter is required. The meetings are structured to allow open discussion. All Directors participate in discussing the strategy, operational and financial performance and internal control of the Group.

The company secretary of the Company (the "Company Secretary") assists the Chairman to prepare the agenda of the meeting and each Director may request to include any relevant matters in the agenda. Generally, at least 14 days' notice is given for the regular meetings by the Company. All substantive agenda items have comprehensive briefing papers, which are circulated at least 3 days before each Board meeting.

The Company Secretary is responsible for distributing detailed documents to Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings so that they may receive accurate, timely and clear information.

All Directors may access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board, the Company will not deal with the matter by way of written resolution or by a Board committee (except if that Board committee was specifically established for such purpose). The Independent Non-executive Director with no material interest in the matter will attend the meeting to deal with the matter if it is considered appropriate. Other than the exceptionals allowed under the Listing Rules, any Director who or whose associates have any material interest in any proposed Board resolutions will not be counted as a quorum in the relevant Board meeting or no vote for the Board resolutions.

Board Meetings and Board Practices (continued)

All the Board committees adopted the same principles and procedures used in the Board meetings.

Board Committees

To assist the Board in the execution of its duties, the Board has delegated specific functions to four Board Committees. The principal committees of the Board are the Audit Committee, Remuneration Committee, Nomination Committee and Investment Committee, details of which are as follows:

	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee
SUN, Patrick	√	√	√	
CHOY Kwok Hung, Patrick	√	√		√
WONG Yuet Leung, Frankie	√			
LAI Weide		√		
LAM Pak Lee				
SHEU Wei Fu				
LI Xiaochun	√			
ZHAO Guiwu			√	√
LEUNG Kwong Wai			√	√
LAI Woon Ching				√

Audit Committee

The Audit Committee comprises three Independent Non-executive Directors and one Non-executive Director and is chaired by Mr. Wong Yuet Leung, Frankie. Mr. Wong has many years of experience of corporate finance and investment at company board level who meets the requirement of having appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules for the purpose of such appointment. In addition, Mr. Sun, Patrick, member of the Audit Committee, is also an experienced investment banker with appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules.

The Committee meets not less than twice a year to review and discuss the internal audit findings, internal controls, interim and annual consolidated financial statements respectively. It may hold additional meetings from time to time to discuss special projects or other issues it considers necessary. The independent auditor and internal auditor of the Group may request a meeting if they consider it necessary.

The Audit Committee will conduct, on behalf of the Board, annual review of the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and training programs and budget.

The authorities of the Audit Committee include (1) investigating any activity within its terms of reference; (2) seeking any information it requires from any employee; and (3) obtaining outside legal or other independent professional advice if required.

The main duties of the Audit Committee are as follows:

- To consider the appointment of the independent auditor, the audit fee, and any question of resignation or dismissal
- To discuss with the independent auditor the nature and scope of the audit
- To review and monitor the independent auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards
- To develop and implement policy on the engagement of an independent auditor to supply non-audit services
- To review the Group's interim and annual consolidated financial statements before submission to the Board
- To discuss problems and reservations arising from the interim review and final audit and any matters that the independent auditor may wish to discuss
- To review the independent auditor's management letter and the management's response
- To review the Group's statement on internal control system prior to endorsement by the Board
- To review the internal audit plan, and ensure that the internal audit function is adequately resourced and has appropriate standing with the Group
- To consider the major findings of any internal investigation or internal audit reports and the management's response
- To conduct (on behalf of the Board) annual review of the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and training programs and budget
- To consider other topics, as defined by the Board

Throughout the year, the Audit Committee discharged its prescribed responsibilities, reviewed and discussed the financial results and internal control system of the Group.

Remuneration Committee

The Remuneration Committee comprises one Non-executive Director and two Independent Non-executive Directors. A majority of the votes in the Remuneration Committee are exercisable by Independent Non-executive Directors. The Committee does not deal with the remuneration of Non-executive Directors which shall be a matter for the executive directors of the Board. No director or senior executive will be involved in any discussion in connection with his or her own remuneration. The Committee also consults the Chairman about their proposals relating to the remuneration of other Executive Directors and has access to professional advice if considered necessary. The Committee consulted the head of human resources in respect of human resources policy and market as well as other company information.

The meetings of the Remuneration Committee shall normally be held not less than once a year to review and approve principally the remuneration of executive directors of the Company. The Committee, currently chaired by Mr. Sun, Patrick, has delegated to the Managing Director the authority to approve the remuneration of all the employees of the Group below the rank of executive director. For policy related remuneration schemes, they will be decided by the Board.

The main duties of the Remuneration Committee are as follows:

- To determine the framework and policy for the remuneration of the Chairman (if of executive), Managing Director and Executive Directors
- To approve remuneration package for any new hire or the respective bonus in excess of an amount as specified by the Committee from time to time
- To delegate relevant responsibility and to receive adequately detailed reports of all exercises of such delegated responsibility
- To review the appropriateness and relevance of the remuneration policy
- To approve the performance related pay schemes operated by the Group
- To review all share incentive plans for approval by the Board
- To ensure the contractual terms on termination with senior executives and any payments thereof are fair to the individual and the Group
- To give due regard to legal requirements, tax provisions and recommendations of the Listing Rules and guidelines in respect of remuneration package for senior executives
- To review annually and take note of the remuneration trends of the Group and obtain reliable and up-to-date information about remuneration packages of other closely comparable companies
- To report its proceedings to the Board after each meeting

In 2010, the Remuneration Committee determined the remuneration policy for the Executive Directors, assessed their performances as well as approved their employment contracts with the Group. Details of remuneration of directors can be obtained in note 9 of the Notes to the Consolidated Financial Statements.

Nomination Committee

The Nomination Committee comprises the Chairman (also the Chairman of the Committee), the Managing Director and one Non-executive Director. The Committee generally meets before the annual general meeting, or at other times as required by the Chairman of the Committee.

The Nomination Committee, chaired by Mr. Sun, Patrick, will identify qualified candidates to fill the Board membership whenever such vacancy arises. It will nominate such candidates for the Board to consider, and regularly review the composition of the Board as well as make suggestions on any change that may be required.

The main duties of the Nomination Committee are as follows:

- To review the structure, size and composition of the Board regularly and to make recommendations to the Board with regard to any changes required
- To evaluate the balance of skills, knowledge and experience of the Board
- To identify and nominate any candidate for the Board's approval
- To review the leadership needs and succession plans of the Group in relation to both directors and senior executives
- To make recommendations for the appointment and removal of the Chairman, Managing Director or any director
- To make recommendations to the Board on the re-appointment of any non-executive director at the conclusion of his specified term of office
- To report its proceedings to the Board after each meeting

Investment Committee

The Investment Committee comprises two Executive Directors, one Non-executive Director and one Independent Non-executive Director. It shall meet at the request of any member of the Committee and its meetings will be facilitated by the Vice President, Corporate Development, and the Vice President, Finance will participate in the discussion.

The Investment Committee, currently chaired by Dr. Leung Kwong Wai, will evaluate and approve any equity investment of US$2 million or less with the support from the head of Corporate Development. Any equity investment exceeding that amount will be proposed by the Committee for the Board's approval. The Committee is authorized, at the expense of the Group, to seek external professional advice it considers necessary and to arrange external advisers to attend its meetings. The Committee will also periodically report the status and performance of investments to the Board.

The main duties of the Investment Committee are as follows:

- To assist the Board in discharging its duties and responsibilities in relation to investment activities (excluding treasury or cash management)
- To assist the Board with all of its policy setting responsibilities related to investment
- To establish and document the basic investment principles and beliefs held by the Committee as well as the Code of Ethics for avoiding possible conflict of interest
- To have all necessary access and authority to seek information from management to fulfill its objectives, duties and responsibilities
- To review the appointment of external professional advisers
- To review and monitor investment performance
- To review and advise on additions to and dispositions of existing investments
- To review annually the terms of reference of the Committee and to recommend to the Board any required changes
- To submit an annual work report to the Board summarizing the Committee's activities, findings, recommendations and results for the past year

Board Meetings and Board Practices (continued)

The following table shows the number and the attendance records of different types of meetings held during the year:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee
Number of meetings held	7	2	1	2	1
Members of the Board	**Number of meetings attended (Attendence rate)**				
Independent Non-executive Directors					
SUN, Patrick (Non-executive Chairman)	7 (100%)	2 (100%)	1 (100%)	2 (100%)	
CHOY Kwok Hung, Patrick	7 (100%)	2 (100%)	1 (100%)		1 (100%)
WONG Yuet Leung, Frankie	7 (100%)	2 (100%)			
Executive Directors					
LEUNG Kwong Wai (Managing Director)	7 (100%)			2 (100%)	1 (100%)
CHEUNG Wai Kuen, Kenny[1]	6 (100%)				
HUANG Hsing Hua[1]	5 (83%)				
LAI Woon Ching	7 (100%)				1 (100%)
LO Wai Ming[1]	6 (100%)				1 (100%)
Non-executive Directors					
CHANG Ching Yi, Steven[2]	0 (0%)				
LAI Weide[3]	2 (100%)		—		
LAM Pak Lee / SHEU Wei Fu (alternate to Lam Pak Lee)	1 (14%)				
LI Xiaochun[3]	2 (100%)				
ZHAO Guiwu[3]	2 (100%)			—	—

1 Messrs. Cheung Wai Kuen, Kenny ("Mr. Cheung"), Huang Hsing Hua ("Mr. Huang") and Lo Wai Ming ("Mr. Lo") have resigned as Executive Directors of the Company so as to maintain a suitable board composition with effect from 1 December 2010. Messrs. Cheung, Huang and Lo continue to be members of senior management in the Group.

2 Mr. Chang Ching Yi, Steven, retired from office as a Non-executive Director on 9 June 2010.

3 Messrs. Lai Weide, Li Xiaochun and Zhao Guiwu were appointed as Non-executive Directors of the Company with effect from 11 October 2010.

Accountability and Audit

Financial Reporting

The Directors of the Company acknowledge their responsibility to present a balanced, clear and understandable assessment in the consolidated financial statements of the annual and interim reports. The Directors have prepared the consolidated financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. When the Directors are aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties will be clearly and prominently set out and discussed at length in this Corporate Governance Report.

Internal Controls

The internal controls within the Group are designed to help the Group achieve key initiatives, and represent the Group's efforts in protecting its physical assets, information and technology. The presence of internal controls empowers the Group to implement best business practices in dynamic and challenging business environments. In brief, the Group's internal controls cover a number of in-house procedures and policies. Examples are compliance with the Group's Code of Conduct, adherence to procedure manuals, confidentiality and information disclosure, documentation, authentication of transactions and so on. The Group has set up an Anti-Fraud policy since 2006. Under such policy, employees can report any concerns, including misconduct, impropriety or fraud to senior management or the Anti-Fraud Management Team. In 2010, no incident of fraud or misconduct was reported from employees or stakeholders that has material effect on the Group's financial statements and overall operations.

During 2010, the Audit Committee with the help of the Corporate Audit Manager conducted reviews of the Group's system of internal control and Audit Committee was satisfied that the Group had complied with the provisions of the Code.

The Board assessed the effectiveness of internal control for the year ended 31 December 2010, including financial and operational controls, and risk management functions, by considering reviews performed by the Audit Committee, executive management and the internal auditor; and the independent auditor's management letters, if any. The Board also reviewed the Group's operating and financial performance against the financial budget on a quarterly basis while executive management closely monitored the financial performance on a monthly basis.

The Internal Audit Team follows a risk-based approach. Different audit areas are assigned risk ratings and an audit plan is formulated accordingly so that priority and appropriate audit frequency is given to areas with higher risks. The annual work plan is reviewed and endorsed by the Audit Committee. The team independently conducts regular financial and operational reviews on the Group and reports directly to the chairman of the Audit Committee regularly. Summary of major findings and control weaknesses, if any, are reviewed by the Audit Committee at least twice every year. The Internal Audit Team monitors the follow-up actions agreed upon in response to its recommendations.

Independent Auditor

The Group's independent auditor is PricewaterhouseCoopers ("PwC HK"). PwC HK is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements. Apart from the statutory audit of the annual consolidated financial statements, PwC HK was also engaged to perform a review on the interim consolidated financial statements of the Group for the six months ended 30 June 2010 as well as advise the Group on tax compliance and related matters.

The fees payable by the Group to the independent auditor in respect of audit and non-audit services provided by them for the year ended 31 December 2010 are US$156,000 and US$30,000 respectively.

Others

Code of Conduct

Since it was founded in July 1999, the Group has always held a strong belief that its future success relies on its trustworthiness, goodwill and integrity in dealing with customers, suppliers, employees, shareholders, the industry and governments. The Group has therefore established a set of Code of Conduct for all of its employees to follow. Adherence to the Code of Conduct is the responsibility of each employee of the Group and is a condition of continued employment. The Code of Conduct deals with key subject areas such as proper use of the Group's funds and assets, customer/ supplier/ government relationships, conflicts of interest and operating procedures.

Corporate Transparency and Investor Relations

The Company reports to shareholders semi-annually on the Group's business and financial conditions. It is the Company's intention to hold analyst conferences immediately after the announcements of the Group's interim and annual results, and media meetings on the following day. In 2010, the Company made the Group's sixth annual results announcement and the seventh interim results announcement since listing. The management interacted directly with investors, analysts and the media, and provided them with insightful information and answers to their queries. On 9 June 2010, the Company held its Annual General Meeting at Room 3203, 32/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong at 4:30pm. During the said annual general meeting, the following items were discussed:

- Report of the Directors and Independent Auditor's Report for the year ended 31 December 2009
- Final dividend for the year ended 31 December 2009
- Re-election of directors
- Authorization to fix the directors' remuneration
- Appointment of Independent Auditor and authorization to Board of Directors to fix their remuneration
- Authorization to repurchase the Company's shares
- Authorization to grant a general mandate to allot, issue or deal with the Company's new shares
- Extension of the general mandate to allot, issue or deal with the Company's new shares including:
  - an ordinary resolution to grant a general mandate to the Directors to repurchase shares up to a maximum of 10% of the existing issued share capital.
  - an ordinary resolution to grant a general mandate to the Directors to allot, issue or deal with new shares up to a maximum of 10% of the existing issued share capital.
  - an ordinary resolution to extend the general mandate granted to the Directors to issue new shares by the number of shares repurchased.

All resolutions related to the above items were duly passed.

For the year under review, the Company conducted 19 meetings and conference calls with investors and analysts. As part of its efforts to promote its image and reputation, the Group leveraged the networks and experience of a public relations firm.

The views of investors are invaluable to the Company. To help it improve communication with investors, the Company has been collecting ideas from shareholders and feedback from the investment community since listing. The Company also appreciates the opportunity to meet shareholders face-to-face.

The Company's Articles of Association has accommodated the use of websites for communication with shareholders in 2009. To the best knowledge of the Company, as at 31 December 2010, CEC held more than 27% of the Company's shares, the Board as a whole held roughly 7%, and the remaining approximately 66%, is believed to be in public hands.

The website of the Group (www.solomon-systech.com) is also updated constantly to inform investors and the general public of the latest information of the Group including the important dates for shareholders in the coming year. Further information for shareholders can be found at the back of this report.

Shareholders' Rights

The Company's shareholders' rights are at all times highly regarded by the Group. The Group will make sure the Company's shareholders know how to exercise their rights. The Group provides effective channels for the Company's shareholders to communicate their ideas to the Group and exert their rights.

With regard to general enquiry, a shareholder may contact the Company's Share Registrar directly. Information on proceedings at general meetings, votes of members, proxies, dividends and reserves, transfer of shares and other information are detailed in the Company's Memorandum and Articles of Association, which is accessible for inspection at the Company's Share Registrar. The contact details of the Share Registrar appear at the end of this report. In the event that a shareholder wishes to put forward a proposal to the Board, he may put forth his enquiry in writing to the Corporate Communications Director who will act on the subject matter accordingly.

REPORT OF THE DIRECTORS

The directors (the "Directors") submit their report together with the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2010.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 18 to the Consolidated Financial Statements.

An analysis of the Group's performance for the year by business segment is set out in note 6 to the consolidated financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 50.

The Board of the Company does not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 26 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to US$32,000.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

Share capital

Details of the movements in share capital of the Company are set out in note 24 to the consolidated financial statements.

Distributable reserves

Distributable reserves of the Company as at 31 December 2010, comprising share premium reserve of US$108,604,000 that is subject to the regulation of Section 34 of the Cayman Islands Companies Law and the Articles of Association of the Company, the equity compensation reserve of US$16,253,000 and retained earnings of US$6,938,000 totaling US$131,795,000 are available for distribution to the Company's shareholders.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December is set out on page 103.

Purchase, sale or redemption of Company's listed shares

The Remuneration Committee of the Company has directed HSBC International Trustee Limited, the Trustee of the Share Award Plan to utilize the funds made available under the Trust Deed to purchase 2,000,000 existing shares from the market at a purchase price of HK$0.67 per share to replenish the pool of shares held by the Trustee pursuant to the share award scheme of the Company on 9 February 2010.

Saved as aforesaid, 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.

Share options

Share options have been granted to directors, senior management and employees of the Group under the Share Option Scheme approved by the shareholders of the Company at an Extraordinary General Meeting on 25 February 2004. The terms of the Share Option Scheme are in accordance with the provisions of the Chapter 17 of the Listing Rules on the Stock Exchange. The Share Option Scheme is valid and effective for a period of 10 years commencing on 19 March 2004, being the date of adoption of such scheme by the Board of Directors of the Company.

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

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

During the year, 6,300,000 share options granted on 28 June 2007 with an exercise price of HK$1.118 per share were lapsed on 30 June 2010 and 72,000 share options granted on 7 February 2007 with an exercise price of HK$1.430 per share were forfeited and cancelled.

On 28 June 2010, options to subscribe for 12,000,000 new shares of the Company were granted by the Company to directors and senior management of the Company at a nominal consideration of HK$1.0 payable by each grantee under the Share Option Scheme. These options are exercisable during the period from 1 July 2011 to 30 June 2013, at the exercise price of HK$0.62 per share.

Details of the share options outstanding as at 31 December 2010 which have been granted under the Share Option Scheme are as follows:

	Number of options								Exercise period	
	Held on 1 January 2010	Lapsed during the year	Forfeited and Cancelled during the year	Granted during the year	Exercised during the year	Held on 31 December 2010	Exercise price HK$	Grant date	Begins	Ends
Independent Non-executive Directors										
Sun, Patrick	500,000	(500,000)	—	—	—	—	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	—	—	—	—	1,000,000	0.632	13 July 2009	1 July 2010	30 June 2012
	—	—	—	1,200,000	—	1,200,000	0.620	28 June 2010	1 July 2011	30 June 2013
	1,500,000	(500,000)	—	1,200,000	—	2,200,000				
Choy Kwok Hung, Patrick	500,000	(500,000)	—	—	—	—	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	—	—	—	(1,000,000)	—	0.275	24 July 2008	1 July 2009	30 June 2011
	1,000,000	—	—	—	—	1,000,000	0.632	13 July 2009	1 July 2010	30 June 2012
	—	—	—	1,200,000	—	1,200,000	0.620	28 June 2010	1 July 2011	30 June 2013
	2,500,000	(500,000)	—	1,200,000	(1,000,000)	2,200,000				
Wong Yuet Leung, Frankie	500,000	(500,000)	—	—	—	—	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	—	—	—	—	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	1,000,000	—	—	—	—	1,000,000	0.632	13 July 2009	1 July 2010	30 June 2012
	—	—	—	1,200,000	—	1,200,000	0.620	28 June 2010	1 July 2011	30 June 2013
	2,500,000	(500,000)	—	1,200,000	—	3,200,000				
Subtotal	**6,500,000**	**(1,500,000)**	**—**	**3,600,000**	**(1,000,000)**	**7,600,000**				
Executive and Non-executive Directors										
Lam Pak Lee	500,000	(500,000)	—	—	—	—	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	—	—	—	—	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	1,000,000	—	—	—	—	1,000,000	0.632	13 July 2009	1 July 2010	30 June 2012
	—	—	—	1,200,000	—	1,200,000	0.620	28 June 2010	1 July 2011	30 June 2013
	2,500,000	(500,000)	—	1,200,000	—	3,200,000				
Leung Kwong Wai	408,000	—	—	—	—	408,000	1.430	7 February 2007	1 April 2009	31 March 2011
	612,000	—	—	—	—	612,000	1.430	7 February 2007	1 April 2010	31 March 2012
	500,000	(500,000)	—	—	—	—	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	—	—	—	—	1,000,000	0.275	24 July 2008	1 July 2009	30 June 2011
	1,000,000	—	—	—	—	1,000,000	0.632	13 July 2009	1 July 2010	30 June 2012
	—	—	—	1,200,000	—	1,200,000	0.620	28 June 2010	1 July 2011	30 June 2013
	3,520,000	(500,000)	—	1,200,000	—	4,220,000				
Lai Woon Ching	20,000	—	—	—	—	20,000	1.430	7 February 2007	1 April 2009	31 March 2011
	30,000	—	—	—	—	30,000	1.430	7 February 2007	1 April 2010	31 March 2012
	500,000	(500,000)	—	—	—	—	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	—	—	—	(1,000,000)	—	0.275	24 July 2008	1 July 2009	30 June 2011
	1,000,000	—	—	—	—	1,000,000	0.632	13 July 2009	1 July 2010	30 June 2012
	—	—	—	1,200,000	—	1,200,000	0.620	28 June 2010	1 July 2011	30 June 2013
	2,550,000	(500,000)	—	1,200,000	(1,000,000)	2,250,000				
Subtotal	**8,570,000**	**(1,500,000)**	**—**	**3,600,000**	**(1,000,000)**	**9,670,000**				

Share options (continued)

Details of the share options outstanding as at 31 December 2010 which have been granted under the Share Option Scheme are as follows: (continued)

	Number of options								Exercise period	
	Held on 1 January 2010	Lapsed during the year	Forfeited and Cancelled during the year	Granted during the year	Exercised during the year	Held on 31 December 2010	Exercise price HK$	Grant date	Begins	Ends
Senior management, employees and others										
Chang Ching Yi, Steven	500,000	(500,000)	—	—	—	—	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	—	—	—	(1,000,000)	—	0.275	24 July 2008	1 July 2009	30 June 2011
	1,000,000	—	—	—	—	1,000,000	0.632	13 July 2009	1 July 2010	30 June 2012
	2,500,000	(500,000)	—	—	(1,000,000)	1,000,000				
Cheung Wai Kuen, Kenny	1,000,000	—	—	—	—	1,000,000	0.632	13 July 2009	1 July 2010	30 June 2012
	—	—	—	1,200,000	—	1,200,000	0.620	28 June 2010	1 July 2011	30 June 2013
	1,000,000	—	—	1,200,000	—	2,200,000				
Huang Hsing Hua	500,000	(500,000)	—	—	—	—	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	—	—	—	(1,000,000)	—	0.275	24 July 2008	1 July 2009	30 June 2011
	1,000,000	—	—	—	—	1,000,000	0.632	13 July 2009	1 July 2010	30 June 2012
	—	—	—	1,200,000	—	1,200,000	0.620	28 June 2010	1 July 2011	30 June 2013
	2,500,000	(500,000)	—	1,200,000	(1,000,000)	2,200,000				
Lo Wai Ming	500,000	(500,000)	—	—	—	—	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	—	—	—	(1,000,000)	—	0.275	24 July 2008	1 July 2009	30 June 2011
	1,000,000	—	—	—	—	1,000,000	0.632	13 July 2009	1 July 2010	30 June 2012
	—	—	—	1,200,000	—	1,200,000	0.620	28 June 2010	1 July 2011	30 June 2013
	2,500,000	(500,000)	—	1,200,000	(1,000,000)	2,200,000				
Others	1,100,000	—	—	—	—	1,100,000	1.430	7 February 2007	1 April 2009	31 March 2011
	1,650,000	—	(72,000)	—	—	1,578,000	1.430	7 February 2007	1 April 2010	31 March 2012
	1,800,000	(1,800,000)	—	—	—	—	1.118	28 June 2007	1 July 2008	30 June 2010
	1,000,000	—	—	—	(1,000,000)	—	0.275	24 July 2008	1 July 2009	30 June 2011
	1,000,000	—	—	—	—	1,000,000	0.632	13 July 2009	1 July 2010	30 June 2012
	—	—	—	1,200,000	—	1,200,000	0.620	28 June 2010	1 July 2011	30 June 2013
	6,550,000	(1,800,000)	(72,000)	1,200,000	(1,000,000)	4,878,000				
Subtotal	**15,050,000**	**(3,300,000)**	**(72,000)**	**4,800,000**	**(4,000,000)**	**12,478,000**				
Total	**30,120,000**	**(6,300,000)**	**(72,000)**	**12,000,000**	**(6,000,000)**	**29,748,000**				

Valuation of options

The Company has been using the Black-Scholes Valuation Model to value the share options granted. Details of the key parameters used in the Model and the corresponding fair values of the options granted during the year should be referred to note 25(a) of the Notes to the Consolidated Financial Statements.

The details of the options granted to the respective parties during 2010 and 2009 are as follows:

	2010		2009	
	Number (in thousand unit)	Value US$'000	Number (in thousand unit)	Value US$'000
Sun, Patrick	1,200	24.2	1,000	28.0
Choy Kwok Hung, Patrick	1,200	24.2	1,000	28.0
Wong Yuet Leung, Frankie	1,200	24.2	1,000	28.0
Lai Weide	—	—	—	—
Lam Pak Lee	1,200	24.2	1,000	28.0
Sheu Wei Fu (alternate to Lam Pak Lee)	—	—	—	—
Li Xiaochun	—	—	—	—
Zhao Guiwu	—	—	—	—
Leung Kwong Wai	1,200	24.2	1,000	28.0
Lai Woon Ching	1,200	24.2	1,000	28.0
Subtotal for Directors	7,200	145.2	6,000	168.0
Chang Ching Yi, Steven	—	—	1,000	28.0
Cheung Wai Kuen, Kenny	1,200	24.2	1,000	28.0
Huang Hsing Hua	1,200	24.2	1,000	28.0
Lo Wai Ming	1,200	24.2	1,000	28.0
Employees and others	1,200	24.2	1,000	27.0
Subtotal for senior management, employees and others	4,800	96.8	5,000	139.0
Total	**12,000**	**242.0**	**11,000**	**307.0**

Directors

The directors during the year and up to the date of this report were:

Independent Non-executive Directors

Mr. Sun, Patrick (Chairman)
Mr. Choy Kwok Hung, Patrick
Mr. Wong Yuet Leung, Frankie

Non-executive Directors

Dr. Lam Pak Lee
Mr. Sheu Wei Fu (alternate to Dr. Lam Pak Lee)
Mr. Chang Ching Yi, Steven (retired on 9 June 2010)
Mr. LAI Weide (appointed on 11 October 2010)
Mr. LI Xiaochun (appointed on 11 October 2010)
Mr. ZHAO Guiwu (appointed on 11 October 2010)

Executive Directors

Dr. Leung Kwong Wai (Managing Director)
Mr. Lai Woon Ching
Mr. Cheung Wai Kuen, Kenny (resigned w.e.f 1 December 2010)
Mr. Huang Hsing Hua (resigned w.e.f 1 December 2010)
Mr. Lo Wai Ming (resigned w.e.f 1 December 2010)

In accordance with Article 95 of the Company's Articles of Association, Messrs. Lai Weide, Li Xiaochun and Zhao Guiwu appointed as additions to the Board, shall hold office until the forthcoming annual general meeting and being eligible, offer themselves for re-election.

In accordance with Article 112 of the Company's Articles of Association, Mr. Wong Yuet Leung, Frankie and Dr. Lam Pak Lee will retire by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

Messrs. Sun, Patrick, Choy Kwok Hung, Patrick and Wong Yuet Leung, Frankie, are Independent Non-executive Directors and their service contracts were renewed in 2010 for a term expiring on 30 June 2011.

Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, or its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 30 to 33.

Directors' and Chief Executive's interests and short positions in the shares and underlying shares of the Company or any associated corporation

As at 31 December 2010, the interests and short positions of each director and chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV 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 31 December 2010			
		Shares	**Options[i]**	**Total**	**% of the issued shares capital of the Company**
Independent Non-executive Directors					
Sun, Patrick	Long	800,000	2,200,000	3,000,000	0.12%
Choy Kwok Hung, Patrick	Long	2,712,000	2,200,000	4,912,000	0.20%
Wong Yuet Leung, Frankie	Long	—	3,200,000	3,200,000	0.13%
Non-executive Directors					
Lai Weide	Long	—	—	—	—
Lam Pak Lee	Long	800,000	3,200,000	4,000,000	0.16%
Sheu Wei Fu (alternate to Lam Pak Lee)	Long	—	—	—	—
Li Xiaochun	Long	—	—	—	—
Zhao Guiwu	Long	—	—	—	—
Executive Directors					
Leung Kwong Wai	Long	118,400,308	4,220,000	122,620,308	5.00%
Lai Woon Ching	Long	26,899,032	2,250,000	29,149,032	1.19%

(i) These are options granted under the Share Option Scheme with more details on page 94.

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

Mr. Lo Wai Ming ("Mr. Lo"), Executive Director who resigned effective 1 December 2010 and Mr. Choy Kwok Hung, Patrick ("Mr. Choy"), Independent Non-executive Director through investment vehicles under their control invested in Beijing LED Lighting Engineering Co., Ltd ("BJ-LED"), an associated company of the Group, at the same time in 2009 and same term of the Group's investment in BJ-LED. The investment vehicles hold 9% and 4% respectively in BJ-LED as at 31 December 2010. BJ-LED proposed a fund raising in proportion to the percentage ownership in March 2011. Subject to the satisfactory completion of the said fund raising exercise, Mr. Choy's ownership in BJ-LED will be substantially increased from 4% to a percentage below 30%, while Mr. Lo's ownership in BJ-LED will be increased from 9% to a percentage below 15%.

Saved as disclosed above, at no time during the year was the Company, its subsidiaries or its associated corporation 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 corporation other than Dr. 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' interests and/or short positions in the shares and underlying shares of the Company

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 31 December 2010, 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 chief executive of the Company.

	Ordinary shares of HK$0.10 each in the Company as at 31 December 2010			
Name	**Capacity**	**Position**	**Number of shares held**	**% of the issued share capital of the Company**
China Electronics Corporation	Interest of controlled corporation	Long	664,288,000	27.08%

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 31 December 2010.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major suppliers and customers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

- the largest supplier 27%
- five largest suppliers combined 74%

Sales

- the largest customer 34%
- five largest customers combined 63%

None of the Directors of the Company, their associates or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares as at 24 March 2011.

Compliance with the Code on Corporate Governance Practices

The Company has complied with the applicable Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the year ended 31 December 2010.

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

The Company has its own written guidelines on securities transactions by Directors and relevant employees on no less exacting terms than the required standard set out in Appendix 10 of the Listing Rules. Having made specific enquiry to all Directors, all of them were in compliance with such guidelines during the year ended 31 December 2010.

Independent Auditor

The consolidated financial statements for the year ended 31 December 2010 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LEUNG Kwong Wai
Managing Director
Hong Kong, 24 March 2011

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Solomon Systech (International) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 50 to 102, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 24 March 2011

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 US$'000	2009 US$'000
Sales	6	**84,735**	61,832
Cost of sales	8	**(59,160)**	(41,449)
Gross profit		**25,575**	20,383
Research and development costs	8	**(15,083)**	(14,259)
Selling and distribution expenses	8	**(4,661)**	(3,266)
Administrative expenses	8	**(8,883)**	(8,509)
Other income		**56**	131
		(2,996)	(5,520)
Finance income – net	7	**4,734**	6,847
Share of results of associated companies	17	**(997)**	(1,858)
Profit/(loss) before income tax		**741**	(531)
Income tax credit	10	**299**	1,216
Profit for the year		**1,040**	685
Attributable to:			
– The equity holders of the Company		**1,040**	684
– Non-controlling interests		**—**	1
		1,040	685
Earnings per share for profit attributable to the equity holders of the Company:			
(expressed in US cent per share)	12		
– Basic		**0.04**	0.03
– Diluted		**0.04**	0.03
Dividend	13	**—**	3,166

The notes on pages 57 to 102 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 US$'000	2009 US$'000
Profit for the year	**1,040**	685
Other comprehensive income for the year:		
– Currency translation differences	**769**	4
Total comprehensive income for the year	**1,809**	689
Attributable to:		
– The equity holders of the Company	**1,809**	688
– Non-controlling interests	**—**	1
	1,809	689

The notes on pages 57 to 102 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Note	2010 US$'000	2009 US$'000
ASSETS			
Non-current assets			
Goodwill and intangible assets	14	**—**	—
Prepaid operating lease	15	**1,185**	—
Property, plant and equipment	16	**8,518**	6,621
Investments in associated companies	17	**990**	4,493
Available-for-sale financial assets	19	**2,506**	2,346
		13,199	13,460
Current assets			
Inventories	21	**13,778**	10,302
Trade and other receivables	22	**22,477**	13,456
Financial assets at fair value through profit or loss	23	**25,034**	20,035
Other financial assets	20	**1,278**	2,713
Pledged bank deposits		**130**	130
Short-term fixed deposits	20	**27,219**	45,318
Cash and cash equivalents	20	**51,102**	44,798
		141,018	136,752
Total assets		**154,217**	150,212
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	24	**31,619**	31,542
Reserves	26(a)		
Proposed final dividend		**—**	3,158
Own shares held		**(279)**	(858)
Others		**103,621**	101,989
Total equity		**134,961**	135,831

As at 31 December 2010

	Note	2010 US$'000	2009 US$'000
LIABILITIES			
Non-current liabilities			
Obligations under finance leases	27	**35**	7
Other payables	29	**—**	133
Bank loan	30	**686**	708
Deferred income tax liabilities	28	**50**	50
		771	898
Current liabilities			
Obligations under finance leases	27	**12**	6
Trade and other payables	29	**17,161**	12,391
Bank loan	30	**95**	86
Deferred income		**217**	—
Current income tax liabilities		**1,000**	1,000
		18,485	13,483
Total liabilities		**19,256**	14,381
Total equity and liabilities		**154,217**	150,212
Net current assets		**122,533**	123,269
Total assets less current liabilities		**135,732**	136,729

The notes on pages 57 to 102 form an integral part of these consolidated financial statements.

The financial statements on pages 50 to 102 were approved by the Board of Directors on 24 March 2011 and were signed on its behalf.

LEUNG Kwong Wai
Managing Director

LAI Woon Ching
Director

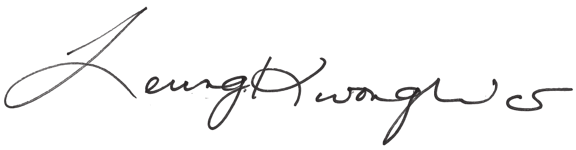
BALANCE SHEET

As at 31 December 2010

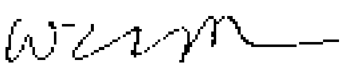
	Note	2010 US$'000	2009 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	—	—
Investments in subsidiaries	18(a)	**66,364**	67,620
		66,364	67,620
Current assets			
Trade and other receivables		**376**	519
Amounts due from subsidiaries	18(b)	**20,536**	19,514
Financial assets at fair value through profit or loss	23	**17,286**	15,580
Other financial assets	20	**1,278**	2,713
Short-term fixed deposits	20	**26,218**	45,318
Cash and cash equivalents	20	**31,498**	11,862
		97,192	95,506
Total assets		**163,556**	163,126
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	24	**31,619**	31,542
Reserves	26(b)		
Proposed final dividend		—	3,158
Others		**131,795**	127,898
Total equity		**163,414**	162,598
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	28	—	—
Current liabilities			
Amounts due to subsidiaries	18(b)	**48**	48
Accrued expenses and other payables		**94**	480
		142	528
Total liabilities		**142**	528
Total equity and liabilities		**163,556**	163,126
Net current assets		**97,050**	94,978
Total assets less current liabilities		**163,414**	162,598

The notes on pages 57 to 102 form an integral part of these consolidated financial statements.

The financial statements on pages 50 to 102 were approved by the Board of Directors on 24 March 2011 and were signed on its behalf.



LEUNG Kwong Wai
Managing Director



LAI Woon Ching
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to equity holders of the Company										
	Share capital US$'000	Share premium US$'000	Own shares held US$'000	Merger reserve US$'000	Exchange reserve US$'000	Equity compensation reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2009	31,516	82,809	(1,458)	2,082	646	15,064	—	12,908	143,567	229	143,796
Comprehensive income											
Profit for the year	—	—	—	—	—	—	—	684	684	1	685
Currency translation differences	—	—	—	—	4	—	—	—	4	—	4
Total comprehensive income	—	—	—	—	4	—	—	684	688	1	689
Transactions with owners											
2008 final dividend paid, net of portion for own shares held	—	—	—	—	—	—	—	(9,466)	(9,466)	—	(9,466)
Shares issued from exercise of share options (note 25)	26	46	—	—	—	—	—	—	72	—	72
Equity compensation	—	—	600	—	—	740	—	(600)	740	—	740
Purchase of non-controlling interests	—	—	—	—	—	—	230	—	230	(230)	—
Total transactions with owners	26	46	600	—	—	740	230	(10,066)	(8,424)	(230)	(8,654)
At 31 December 2009	31,542	82,855	(858)	2,082	650	15,804	230	3,526	135,831	—	135,831
At 1 January 2010	**31,542**	**82,855**	**(858)**	**2,082**	**650**	**15,804**	**230**	**3,526**	**135,831**	**—**	**135,831**
Comprehensive income											
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,040**	**1,040**	**—**	**1,040**
Currency translation differences	**—**	**—**	**—**	**—**	**769**	**—**	**—**	**—**	**769**	**—**	**769**
Total comprehensive income	**—**	**—**	**—**	**—**	**769**	**—**	**—**	**1,040**	**1,809**	**—**	**1,809**
Transactions with owners											
2009 final dividend paid, net of portion for own shares held	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,166)**	**(3,166)**	**—**	**(3,166)**
Shares issued from exercise of share options (note 25)	**77**	**135**	**—**	**—**	**—**	**—**	**—**	**—**	**212**	**—**	**212**
Shares purchased for Share Award Scheme	**—**	**—**	**(174)**	**—**	**—**	**—**	**—**	**—**	**(174)**	**—**	**(174)**
Equity compensation	**—**	**—**	**753**	**—**	**—**	**449**	**—**	**(753)**	**449**	**—**	**449**
Total transactions with owners	**77**	**135**	**579**	**—**	**—**	**449**	**—**	**(3,919)**	**(2,679)**	**—**	**(2,679)**
At 31 December 2010	**31,619**	**82,990**	**(279)**	**2,082**	**1,419**	**16,253**	**230**	**647**	**134,961**	**—**	**134,961**

The notes on pages 57 to 102 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	2010 US$'000	2009 US$'000
Operating activities			
Cash used in operations	32(a)	**(2,702)**	(9,957)
Hong Kong income tax refunded/(paid)		**301**	(132)
Overseas income tax (paid)/refunded		**(2)**	19
Interest paid on the bank loan		**(12)**	(14)
Interest element of finance lease rental payments		**(1)**	(1)
Net cash used in operating activities		**(2,416)**	(10,085)
Investing activities			
Purchases of property, plant and equipment	16	**(4,143)**	(1,028)
Proceeds from disposal of property, plant and equipment	32(b)	**22**	11
Deposit paid for an operating lease		**(242)**	—
Acquisition of associated companies	17	**—**	(690)
Proceeds from disposal of an available-for-sale financial asset	19	**—**	284
Decrease in short-term fixed deposits		**18,099**	1,579
(Increase)/decrease in financial assets at fair value through profit or loss		**(4,918)**	28
Decrease in other financial assets		**1,435**	1,454
Interest received		**1,568**	2,039
Net cash generated from investing activities		**11,821**	3,677
Financing activities			
Purchase of ordinary shares for Share Award Scheme		**(174)**	—
Proceeds from/(payment of) capital element of finance leases		**34**	(7)
Dividend paid		**(3,166)**	(9,466)
Proceeds from exercise of share options		**212**	72
(Repayment of)/drawdown from bank loan		**(13)**	794
Net cash used in financing activities		**(3,107)**	(8,607)
Net increase/(decrease) in cash and cash equivalents		**6,298**	(15,015)
Exchange gain on cash and cash equivalents		**6**	12
Cash and cash equivalents at 1 January		**44,798**	59,801
Cash and cash equivalents at 31 December		**51,102**	44,798
Analysis of balances of cash and cash equivalents:			
– Bank balances and cash		**51,102**	44,798

The notes on pages 57 to 102 form an integral part of these consolidated financial statements.

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 design, development and sales of proprietary integrated circuits ("IC") products and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs, consumer electronic products, industrial appliances and green energy applications such as LED lighting.

The Company was incorporated in the Cayman Islands on 21 November 2003 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Companies Law"). The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and the address of its principal office in Hong Kong Special Administrative Region ("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 consolidated financial statements are presented in US dollars, unless otherwise stated.

2. Key events

On 17 March 2010, one of the associated companies that the Group held 20.6% equity interest as at 31 December 2009 issued 4,120,098 new shares to strategic investors. As a result, the Group's holding was diluted to 10.3%. The associated company would no longer be accounted for under equity method of accounting as the Group has had no significant influence over it since this issue of shares. The Group's retained investment in this associated company was subsequently recognized as an available-for-sale financial asset in the consolidated balance sheet at a revised carrying amount represented by the fair value of the retained investment at the date when significant influence ceased. Further details are provided in note 17.

On 19 March 2010, a new subsidiary, namely Solomon Systech (Beijing) Limited ("SSBJ"), in Beijing, Mainland China ("China") with registered capital of US$8.0 million was set up. US$4.2 million was injected to the entity for the year ended 31 December 2010. The balance of registered capital is required to be paid up by March 2012.

On 4 June 2010, the Group entered into the Sale and Purchase Agreement for the disposal of the entire interest in an available-for-sale financial asset for a consideration of US$5.5 million, which is higher than the carrying value (amounting to US$2.3 million) on the balance sheet. The disposal was completed on 30 November 2010 and the total consideration was received on 3 January 2011.

On 8 November 2010, SSBJ successfully tendered for the land use rights, in Beijing, China, at an operating lease amount of approximately US$1.2 million. CNY1.6 million (approximately US$0.2 million) was paid in October 2010 and the balance as required for the operating lease was settled in January 2011.

3. 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.

3.1. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of the consolidated 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 Group'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 5.

3. Summary of significant accounting policies (continued)

3.1. Basis of preparation (continued)

(a) New, revised and amended standards and interpretations to existing standards effective in 2010

The Group has adopted the following new, revised and amended standards and interpretations to existing standards ("new HKFRS") that have been issued and are effective for the Group's financial year commencing on 1 January 2010:

• HKAS 27 (Revised)	Consolidated and separate financial statements
• HKAS 39 (Amendment)	Financial instruments: recognition and measurement - eligible hedged items
• HKFRS 1 (Revised)	First-time adoption of HKFRSs
• HKFRS 3 (Revised)	Business combinations
• HKFRS 1 (Amendment)	Additional exemptions for first-time adopters of HKFRSs
• HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
• HKFRS 5	Non-current assets held for sale and discontinued operations (and consequential amendment to HKFRS 1 "First-time adoption")
• HK(IFRIC) - Int 17	Distributions of non-cash assets to owners
• HK(IFRIC) - Int 18	Transfers of assets from customers

- Various improvements to HKFRSs published by the Hong Kong Institute of Certified Public Accountants in May 2009

HKFRS 3 (Revised) - Business combinations

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination achieved in stages, the revised standard requires goodwill to be determined only at the acquisition date other than at the previous stages. The acquirer should re-measure its previously held interest in the acquiree at its fair value at the date of control is obtained, recognizing a gain/loss in the income statement. All acquisition-related costs should be expensed.

HKAS 27 (Revised) - Consolidated and separate financial statements

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control ("economic entity model"). These transactions will no longer result in goodwill or gains and losses. When control over a previous subsidiary is lost, any remaining interest in the entity is re-measured to fair value and the resulting gain or loss is recognized in the income statement.

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

3. Summary of significant accounting policies (continued)

3.1. Basis of preparation (continued)

(b) New, revised and amended standards and interpretations to existing standards that are not effective and have not been early adopted by the Group

The following new, revised and amended standards and interpretations to existing standards have been issued, but not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group:

			Effective for annual periods beginning or after
•	HKAS 24 (Revised)	Related party disclosures	1 January 2011
•	HKAS 32 (Amendment)	Classification of rights issue	1 February 2010
•	HKFRS 9	Financial instruments	1 January 2013
•	Amendment to HKFRS 1	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
•	Amendment to HKFRS 1	First-time adoption of HKFRSs - severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
•	Amendment to HKFRS 7	Disclosures - transfers of financial assets	1 July 2011
•	HK(IFRIC) - Int 19	Extinguishing financial liabilities with equity instruments	1 July 2010
•	Amendment to HK(IFRIC) - Int 14	Prepayments of a minimum funding requirement	1 January 2011
•	Various improvements to HKFRSs published by the Hong Kong Institute of Certified Public Accountants in May 2010		

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

3.2. 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. 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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income (note 3.6).

3. Summary of significant accounting policies (continued)

3.2. Consolidation (continued)

(a) Subsidiaries (continued)

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

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Associated companies

Associated companies are all entities over which the Group has 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 using the equity method of accounting and are initially recognized at cost. The Group's investments in associated companies include goodwill identified on acquisition, net of any accumulated impairment losses (note 3.7).

The Group's share of its associated companies' post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. 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.

Dilution gains or losses arising in investments in associated companies are recognized in the consolidated income statement.

3. Summary of significant accounting policies (continued)

3.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors and senior management led by the Group Chief Executive Officer who makes strategic decisions.

3.4. 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 or valuation where items are re-measured. 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 consolidated income statement.

All foreign exchange gains and losses are presented in the consolidated income statement within "administrative expenses".

Changes in the fair value of monetary securities denominated in foreign currency 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 consolidated income statement and other changes in the carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in the consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale, are included in other comprehensive income.

(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 in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated 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.

3. Summary of significant accounting policies (continued)

3.5. 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the consolidated 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 to their residual values over their estimated useful lives, as follows:

Freehold land	— (not amortized)
Building	2%
Leasehold improvements	20% or over the unexpired lease period, whichever is shorter
Furniture, fixtures and 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 3.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "administrative expenses" in the consolidated income statement.

3.6. 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 and is tested annually for impairment as part of the overall balance. Separately recognized goodwill is tested 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.

(b) Patents and intellectual property

Patents and intellectual property are shown at historical cost. Patents and intellectual property have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of patents and intellectual property over their estimated useful lives of no more than five years.

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

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets 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). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3. Summary of significant accounting policies (continued)

3.8. Financial assets

3.8.1 Classification

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

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

Financial assets at fair value through profit or loss and other financial assets are financial assets designated by management as fair value through profit or loss upon initial recognition. Financial assets are classified in this category because they are managed and their performance are evaluated on a fair value basis, in accordance with the Group's investment strategy. 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. These are classified as non-current assets. Loans and receivables include trade and other receivables, cash and cash equivalents and fixed deposits in the balance sheet (notes 3.11 and 3.12).

(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.

3.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognized on trade-date i.e. 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 carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. 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.

Dividend income and 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 consolidated income statement as "finance income - net" when the Group's right to receive payments is established in the year in which they arise respectively.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement as "finance income - net".

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) 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.

3. Summary of significant accounting policies (continued)

3.8. Financial assets (continued)

3.8.2 Recognition and measurement (continued)

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 loss.

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 as an indication that 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 consolidated income statement, is removed from equity and recognized in the consolidated income statement. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in note 3.11.

3.9. Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values. Trading derivatives are classified as a current asset or liability.

Changes in the fair value of the derivative instruments which do not qualify for hedge accounting are recognized immediately within "finance income – net" in the consolidated income statement.

3.10. 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. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.11. 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and defaults or delinquency in payments are considered indicators that the receivable is impaired. 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 original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognized in the consolidated income statement within "selling and distribution expenses". When a trade receivable is uncollectible, it is written off against the provision account of trade receivables. Subsequent recoveries of amounts previously written off are credited against "selling and distribution expenses" in the consolidated income statement.

3.12. Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash at bank and in hand, deposits held at call with banks and fixed deposits with original maturity within 3 months or less. The cash and cash equivalents meet the definition of loans and receivables and are measured at amortized cost using the effective interest method.

3. Summary of significant accounting policies (continued)

3.13. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and share options are shown in equity as a deduction from the proceeds.

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 the 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 the equity attributable to the Company's equity holders.

3.14. Current and deferred income tax

The income tax for the year comprises current and deferred tax and is recognized in the consolidated income statement. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, 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, the deferred income tax is not accounted for if it 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively 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, except for deferred income tax liabilities 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.

3.15. 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.

3. Summary of significant accounting policies (continued)

3.15. Employee benefits (continued)

(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). Non-market vesting conditions are included in assumptions about the number of shares or share options that are expected to vest. At each balance sheet date, the Group 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 consolidated 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 ("Trustee") for the benefit of the directors and employees, have been created by capitalizing the Company's retained earnings to pay up consideration in full prior to the listing of the Company in the Stock Exchange. The pool of shares brought forward at the time of listing of the Company has been used up for granting to grantees. The Trustee has been instructed to buy shares from the market using the funds held by the Trustee to grant shares to directors and employees. Detail of outstanding shares can be referred to note 25(b).

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 25(a).

(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 profit-sharing bonus 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.

3.16. 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. 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.

3. Summary of significant accounting policies (continued)

3.17. Trade payables and other payables

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

3.18. Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of products in the ordinary course of the Group's activities. Revenue is shown net of discount and after eliminating sales within the Group. The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of products
The Group manufactures and sells proprietary IC products and system solutions. 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.

(c) Other income
Other income is recognized when the Group's right to receive payments is established.

3.19. 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.

(i) Prepayments made under operating lease are amortized to the consolidated income statement on a straight-line basis over the period of the lease, or when there is impairment, the impairment is expensed in the consolidated income statement.

(ii) Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated 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 consolidated 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 life of the asset and the lease term.

3. Summary of significant accounting policies (continued)

3.20. 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 consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

3.21. 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 the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

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 as an intangible asset are amortized from the commencement of the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually in accordance with HKAS 36 - Impairment of Assets.

3.22. 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.

3.23. Comparative figures

Certain comparative figures in the Group's consolidated income statement relating to the results arising from the Group's investments in financial instruments and associated companies, namely "other income", "finance income - net" and "share of results of associated companies" have incorporated figures previously classified under "other gain/(loss) - net" and "other operating expenses" in order to conform to the current year's presentation for a fairer presentation of the Group's activities. These reclassifications have no effect on the Group's consolidated financial position as at both 31 December 2009 and 2010, or the Group's profit/loss or cash flows for the years ended 31 December 2009 and 2010.

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 ("HKD"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities in foreign operations.

Since the United States Dollar ("USD") is pegged to the HKD, the management considered that the Group does not have any material foreign exchange exposure in this regard.

(ii) Price risk

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

At 31 December 2010, the Group held listed equity securities and marketable bonds (note 23). If the equity/bond price had increased/decreased by 10% with all other variables held constant, the post-tax profit for the year would have been approximately US$1,599,000 higher/lower (2009: US$1,303,000 higher/ lower) as a result of gain/loss on listed equity securities and marketable bonds classified as at fair value through profit or loss.

The Group's investments in equity-linked deposits also exposed the Group to equity securities price risk as their fair value were mainly linked to the share prices of the underlying shares traded in Hong Kong Stock Market.

The investments in the available-for-sales financial assets of US$ 2,506,000 (2009: US$2,346,000) are exposed to price risk. As all of the available-for-sale financial assets held by the Group do not have quoted market price in any active market and are stated at cost less impairment loss. The price risk is therefore reflected in the impairment loss.

(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. Deposits are only placed with reputable banks and financial institutions. For credit exposures to customers, Group management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The maximum exposure to credit risk at the reporting date is the carrying value of the trade and other receivables. As at 31 December 2010, 23% (2009: 38%) of the gross trade receivables was related to reputable distributors and 78% (2009: 60%) was related to the top 5 customers.

The Group has been monitoring the receivables aging closely. As at 31 December 2010, past due amount accounted for 18% (2009: 23%) of total trade receivables. No provision for impairment was made to these receivables since majority of the overdue sum has been settled after the balance sheet date.

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.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groups based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Group		Company	
	2010 US$'000	2009 US$'000	**2010 US$'000**	2009 US$'000
Due within 12 months				
Trade and other payables	**17,161**	12,391	**94**	480
Bank loan including interest portions	**107**	99	**—**	—
Obligations under finance leases	**12**	6	**—**	—
Amounts due to subsidiaries	**—**	—	**48**	48
Due after 12 months				
Other payables	**—**	133	**—**	—
Bank loan including interest portions	**729**	816	**—**	—
Obligations under finance leases including interest portions	**36**	8	**—**	—

(d) Cash flow and fair value interest rate risk

Except for the cash and cash equivalents, bank deposits, other financial assets and certain bonds and notes classified as financial assets at fair value through profits or loss ("FVTPL"), the Group has no other significant interest-bearing assets or liabilities.

The bonds and notes were issued at fixed interest rates which exposed the Group to fair value interest rate risk.

The Group's other financial assets consist of structured deposits, which were linked to foreign currencies such as Australian Dollar, Euro Dollar, Japanese Yen, etc. The structured deposits were issued at fixed interest rates which exposed the Group to fair value interest rate risk.

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

Since there is no significant borrowing in the Group and the cash and cash equivalents and bank deposits are under short maturity terms, the cash flow and fair value interest rate risk is considered to be low.

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 2010, the Group had no material borrowing. The reduction in shareholders' funds is mainly due to the payment of dividend and increase in working capital.

4. Financial risk management (continued)

4.3. Fair value estimation

The Group's investments in financial instruments are measured in the balance sheet at fair value. The fair value measurements are disclosed by level of the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presented the assets (liabilities: Nil) that were measured at fair value at 31 December 2010 of the Group and the Company:

(a) Group

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Financial assets at fair value through profit or loss				
Unlisted				
Equity-linked deposits	—	1,481	—	1,481
Deposit notes	—	6,515	—	6,515
Investment fund	—	1,048	—	1,048
Marketable bonds	7,106	—	—	7,106
Listed in Hong Kong				
Equity securities	8,291	—	—	8,291
Fund	593	—	—	593
Other financial assets	—	1,278	—	1,278
	15,990	10,322	—	26,312

(b) Company

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Financial assets at fair value through profit or loss				
Unlisted				
Equity-linked deposits	—	1,481	—	1,481
Deposit notes	—	2,000	—	2,000
Marketable bonds	4,921	—	—	4,921
Listed in Hong Kong				
Equity securities	8,291	—	—	8,291
Fund	593	—	—	593
Other financial assets	—	1,278	—	1,278
	13,805	4,759	—	18,564

4. Financial risk management (continued)

4.3. Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group was the current bid price. These instruments were included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter instruments) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair value of financial instruments is established by using advanced financial valuation technique by the reputable financial institutions. Valuation technique can range from simple discounted cash flow analysis to complex pricing model such as Binomial Option Pricing Model Monte Carlo Simulation Method, Black-Scholes Option Pricing Model, etc.

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

The carrying value less impairment provision of cash, bank loan, other financial assets, trade receivables and payables approximate their fair values.

5. Critical accounting estimates and judgements

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

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

5.1. Income tax

The Group is subject to income tax in several jurisdictions. Significant judgement is required in determining the worldwide provision for income tax. 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 tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision and deferred tax assets and liabilities in the period in which such determination is made.

5.2. Equity compensation

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

5.3. Estimate impairment of investments in associated companies

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3.7. The recoverable amounts of goodwill arising from acquisition of associated companies have been determined based on the higher of fair value less cost-to-sell or value-in-use calculations. These calculations require the use of estimates (note 17).

5. Critical accounting estimates and judgements (continued)

5.4. Provision for impairment of trade receivables

The Group makes provision for impairment of trade receivables based on an assessment of the recoverability of trade receivables. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables and provision for impaired receivables in the year in which such estimate has been changed.

5.5. Provision for obsolete or slow moving inventories

The Group makes provision for obsolete or slow moving inventories based on consideration of obsolescence of raw materials and work in progress and the net realizable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventory and impairment provision in the year in which such estimate has been changed.

6. Segment information – Group

During the year, the Group is principally engaged in the design, development and sales of proprietary IC products and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs, consumer electronic products, industrial appliances and green energy applications such as LED lighting.

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

The chief operating decision-makers have been identified as the executive director and senior management led by the Group CEO (Managing Director). The executive director and senior management review the Group's internal reporting to assess performance and allocate resources. A management approach has been used for the operating segment reporting.

Sales amounted to US$84,735,000 and US$61,832,000 for the years ended 31 December 2010 and 2009 respectively.

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

(a) Sales

	2010 US$'000	2009 US$'000
Korea	**31,761**	7,909
Hong Kong	**19,878**	28,380
Taiwan	**12,857**	10,353
China	**8,782**	9,601
Japan	**3,561**	1,667
South East Asia	**1,814**	1,769
United States of America ("USA")	**1,205**	255
Others	**4,877**	1,898
	84,735	61,832

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

6. Segment information – Group (continued)

(b) Total assets

	2010 US$'000	2009 US$'000
Hong Kong	127,701	130,686
China	15,383	11,004
Taiwan	9,771	7,319
Others	1,362	1,203
	154,217	150,212

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

(c) Capital expenditures

	Prepaid operating lease		Property, plant and equipment		Investment in associated companies	
	2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'000
Hong Kong	—	—	538	725	—	—
China	1,185	—	2,311	198	—	690
Taiwan	—	—	—	23	—	—
South East Asia	—	—	1,270	94	—	—
Others	—	—	24	—	—	—
	1,185	—	4,143	1,040	—	690

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

7. Finance income – net – Group

	2010 US$'000	2009 US$'000
Income:		
– Gain on disposal of an available-for-sale financial asset	3,186	95
– Gain on disposal of financial assets at fair value through profit or loss	141	1,017
– Interest income from deposits	1,167	2,104
– Dividend income	240	186
– Others	73	48
– Net unrealizable gain/(loss) from financial assets at fair value through profit or loss:		
– Fair value gain	1,063	3,529
– Fair value loss	(1,123)	(117)
Expenses:		
– Interest element of finance leases	(1)	(1)
– Interest expense of bank loan	(12)	(14)
	4,734	6,847

8. Expenses by nature – Group

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

	2010 US$'000	2009 US$'000
Cost of inventories sold	**59,090**	41,683
Gain on disposal of property, plant and equipment (note 32(b))	**(14)**	(9)
Auditor's remuneration	**160**	148
Depreciation of owned property, plant and equipment	**2,993**	2,762
Depreciation of leased property, plant and equipment	**8**	3
Operating leases for land and buildings	**1,307**	1,182
Employee benefit expenses (excluding Directors' emoluments (note 9(a))	**16,797**	15,553
Directors' emoluments (note 9(b))	**1,215**	1,248
Net exchange gain	**(62)**	(104)
Write-back of provision for impairment of receivables (note 22)	**—**	(27)
Provision/(write-back of provision) for obsolete or slow moving inventories (note 21)	**181**	(3,538)

9. Employee benefit expenses – Group

(a) Employee benefit expenses

	2010 US$'000	2009 US$'000
Wages and salaries	**14,608**	13,650
Discretionary bonuses	**97**	72
Equity compensation – shares and share options	**172**	418
Pension costs – defined contribution plans (i)	**604**	438
Other employee benefits	**1,316**	975
	16,797	15,553

(i) Forfeited contributions to certain defined contribution plans will be utilized to reduce contributions. During the year, there was US$21,000 of contribution being forfeited (2009: US$20,000).

9. Employee benefit expenses – Group (continued)

(b) Directors' emoluments

The remuneration of every director of the Company including the equity compensation charged to the consolidated income statement under the requirements of HKFRS 2 "Share-based payment" is set out below:

2010	Fees US$'000	Salary US$'000	Other benefits (i) US$'000	Employer's contribution to pension scheme US$'000	Subtotal US$'000	Equity compensation (ii) US$'000	Total US$'000
Sun, Patrick	34	—	—	—	34	26	60
Choy Kwok Hung, Patrick	30	—	—	—	30	26	56
Wong Yuet Leung, Frankie	29	—	—	—	29	26	55
Chang Ching Yi, Steven	9	—	—	—	9	14	23
Lai Weide	2	—	—	—	2	—	2
Lam Pak Lee	19	—	—	—	19	26	45
Sheu Wei Fu (alternate to Lam Pak Lee)	—	—	—	—	—	—	—
Li Xiaochun	3	—	—	—	3	—	3
Zhao Guiwu	2	—	—	—	2	—	2
Leung Kwong Wai	—	259	7	12	278	42	320
Cheung Wai Kuen, Kenny	—	165	2	1	168	33	201
Huang Hsing Hua	—	111	3	4	118	28	146
Lai Woon Ching	—	122	1	6	129	28	157
Lo Wai Ming	—	110	2	5	117	28	145
Total	128	767	15	28	938	277	1,215

2009	Fees US$'000	Salary US$'000	Other benefits (i) US$'000	Employer's contribution to pension scheme US$'000	Subtotal US$'000	Equity compensation (ii) US$'000	Total US$'000
Sun, Patrick	31	—	—	—	31	17	48
Choy Kwok Hung, Patrick	28	—	—	—	28	17	45
Wong Yuet Leung, Frankie	26	—	—	—	26	17	43
Chang Ching Yi, Steven	21	—	—	—	21	17	38
Lam Pak Lee	21	—	—	—	21	17	38
Sheu Wei Fu (alternate to Lam Pak Lee)	—	—	—	—	—	—	—
Leung Kwong Wai	—	244	6	2	252	117	369
Cheung Wai Kuen, Kenny	—	172	2	2	176	24	200
Huang Hsing Hua	—	113	3	2	118	31	149
Lai Woon Ching	—	116	2	2	120	31	151
Lam Shun Fun, Percy	—	14	—	—	14	3	17
Lo Wai Ming	—	114	3	2	119	31	150
Total	127	773	16	10	926	322	1,248

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

(ii) This represents the amount charged to the consolidated income statement under the requirements of HKFRS 2. Equity compensation granted in prior years with vesting term extended into the year has an impact to the current year.

9. Employee benefit expenses – Group (continued)

(c) Equity compensation to Directors

More details for the Equity Compensation Scheme can be referred to note 25 to the consolidated financial statements. Details of the share options and shares granted to each of the directors and their corresponding fair values are listed as below:

	2010				2009			
	Number of share options granted (in thousand unit)	Fair value of the share options at grant date[ii] US$'000	Number of shares granted[i] (in thousand unit)	Fair value of the shares at grant date[ii] US$'000	Number of share options granted (in thousand unit)	Fair value of the share options at grant date US$'000	Number of shares granted (in thousand unit)	Fair value of the shares at grant date US$'000
Sun, Patrick	1,200	24.2	—	—	1,000	28.0	—	—
Choy Kwok Hung, Patrick	1,200	24.2	—	—	1,000	28.0	—	—
Wong Yuet Leung, Frankie	1,200	24.2	—	—	1,000	28.0	—	—
Chang Ching Yi, Steven [iii]	—	—	—	—	1,000	28.0	—	—
Lai Weide [iv]	—	—	—	—	—	—	—	—
Lam Pak Lee	1,200	24.2	—	—	1,000	28.0	—	—
Sheu Wei Fu (alternate to Lam Pak Lee)	—	—	—	—	—	—	—	—
Li Xiaochun [iv]	—	—	—	—	—	—	—	—
Zhao Guiwu [iv]	—	—	—	—	—	—	—	—
Leung Kwong Wai	1,200	24.2	—	—	1,000	28.0	—	—
Cheung Wai Kuen, Kenny [v]	1,200	24.2	—	—	1,000	28.0	1,000	18.0
Huang Hsing Hua [v]	1,200	24.2	—	—	1,000	28.0	—	—
Lai Woon Ching	1,200	24.2	—	—	1,000	28.0	—	—
Lo Wai Ming [v]	1,200	24.2	—	—	1,000	28.0	—	—
Total	10,800	217.8	—	—	10,000	280.0	1,000	18.0

(i) No share under the Share Award Plan of the Company was granted to the Executive Directors of the Company during the year.

(ii) These represent the full fair value at grant date to be amortized in the next 12 months for the share option or in accordance with the vesting terms of the share grant and may differ from the total charge to the consolidated income statement of the year.

(iii) Mr. Chang Ching Yi, Steven, retired from office as a Non-executive Director on 9 June 2010.

(iv) Messrs. Lai Weide, Li Xiaochun and Zhao Guiwu have been appointed as Non-executive Directors of the Company with effect from 11 October 2010.

(v) Messrs. Cheung Wai Kuen, Kenny, Huang Hsing Hua and Lo Wai Ming have resigned as Executive Directors of the Company with effect from 1 December 2010.

9. Employee benefit expenses – Group (continued)

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2009: five) directors whose emoluments are reflected in the analysis above.

The emoluments paid to the remaining three highest paid individuals are as follows:

	2010	2009
Number of individuals	3	—

	2010 US$'000	2009 US$'000
Basic salaries, other allowances and benefits in kind	494	—
Discretionary bonuses	—	—
Employer's contribution to pension scheme	15	—
	509	—
Equity compensation	35	—
	544	—

Their emoluments fell within the following bands:

	Number of individuals 2010	2009
US$150,001 to US$200,000	2	—
US$200,001 to US$250,000	1	—

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 (2009: Nil).

10. Income tax – Group

Hong Kong and overseas income tax has been provided at the rate of 16.5% (2009: 16.5%) and at the rates of taxation prevailing in the countries in which the Group operates respectively. No provision for Hong Kong income tax has been made as the Group has no estimated assessable profits for the years ended 31 December 2010 and 2009.

	2010 US$'000	2009 US$'000
Current income tax:		
– Hong Kong	—	—
– Overseas	2	—
Write-back of income tax provision in prior years	(301)	(1,158)
Deferred income tax	—	(58)
Income tax credit	(299)	(1,216)

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

	2010 US$'000	2009 US$'000
Profit/(loss) before income tax	741	(531)
Income tax calculated at a tax rate of 16.5%	122	(88)
Income not subject to tax	(831)	(1,309)
Expenses not deductible for tax purposes	334	274
Income tax losses not recognized	377	1,065
Write-back of income tax provision in prior years	(301)	(1,158)
Income tax credit	(299)	(1,216)

Hong Kong income tax rate for 2010 is 16.5% (2009: 16.5%).

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of US$5,611,000 (2009: US$5,234,000) in respect of losses amounting to US$34,006,000 (2009: US$31,722,000) that can be carried forward against future taxable profits. These tax losses have no expiry date.

11. Profit attributable to the equity holders of the Company

The profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of profit of US$3,321,000 (2009: US$3,853,000).

12. Earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to the equity holders of the Company. The profit attributable to the equity holders of the Company for the year is US$1,040,000 (2009: US$684,000).

The basic earnings per share is based on the weighted average number of 2,442,244,818 (2009: 2,429,743,177) ordinary shares in issue during the year excluding own shares held during the year.

The diluted earnings per share is based on 2,454,078,716 (2009: 2,457,281,028) ordinary shares which is the adjusted weighted average number of ordinary shares outstanding assuming conversion of all dilute/potential 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 calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2010	2009
Weighted average number of ordinary shares in issue	2,442,244,818	2,429,743,177
Adjustments for:		
– allocated own shares under Share Award Scheme	6,935,562	16,330,699
– share options	4,898,336	11,207,152
Weighted average number of ordinary shares for diluted earnings per share	2,454,078,716	2,457,281,028

13. Dividend

	2010 US$'000	2009 US$'000
Final dividend attributed to the year:		
– 2009 final dividend, paid, of HK$0.01 (approximately 0.13 US cent) per ordinary share(i)	—	3,166
Dividend attributed to the year	—	3,166

(i) At the meeting held on 20 April 2010, the Directors recommended the payment of a final dividend of HK$0.01 per ordinary share, totaling HK$24,533,000 (approximately US$3,166,000) for the year ended 31 December 2009. The dividend was paid on 18 June 2010.

14. Goodwill and intangible assets – Group

	Goodwill US$'000	Patents and intellectual property US$'000	Total US$'000
At 1 January 2009			
Cost	—	4,500	4,500
Accumulated amortization	—	(4,500)	(4,500)
Net book amount	—	—	—
Year ended 31 December 2009			
Opening net book amount	—	—	—
Impairment charge	—	—	—
Closing net book amount	—	—	—
At 31 December 2009			
Cost	—	4,500	4,500
Accumulated amortization	—	(4,500)	(4,500)
Net book amount	—	—	—
Year ended 31 December 2010			
Opening net book amount	**—**	**—**	**—**
Impairment charge	**—**	**—**	**—**
Closing net book amount	**—**	**—**	**—**
At 31 December 2010			
Cost	**—**	**4,500**	**4,500**
Accumulated amortization	**—**	**(4,500)**	**(4,500)**
Net book amount	**—**	**—**	**—**

15. Prepaid operating lease – Group

The prepaid operating lease represents payments of land use rights to the Beijing Municipal Bureau of Land and Resources. Land use rights are carried at cost less accumulated amortization and impairment losses. Amortization is provided to write off the cost of lease prepayment on a straight-line basis over the period of the rights which is 50 years.

	2010 US$'000	2009 US$'000
Net balance at 1 January	**—**	—
Addition	**1,185**	—
Net balance at 31 December	**1,185**	—
Cost	**1,185**	—
Accumulated amortization	**—**	—
Net balance at 31 December	**1,185**	—

16. Property, plant and equipment

	Group						Company
	Land and building[(i)] US$'000	Leasehold improvements US$'000	Furniture, fixtures, and equipment US$'000	Machinery and laboratory equipment US$'000	Motor vehicles US$'000	Total US$'000	Furniture, fixtures and office equipment US$'000
At 1 January 2009							
Cost	1,662	2,470	14,488	18,237	197	37,054	611
Accumulated depreciation	—	(2,144)	(12,458)	(13,460)	(133)	(28,195)	(594)
Net book amount	1,662	326	2,030	4,777	64	8,859	17
Year ended 31 December 2009							
Opening net book amount	1,662	326	2,030	4,777	64	8,859	17
Exchange differences	(1)	(2)	(1)	(5)	—	(9)	—
Additions	—	142	824	74	—	1,040	—
Write-off	—	—	(472)	(30)	—	(502)	—
Reclassification	—	—	(1)	1	—	—	—
Disposals	—	—	(2)	—	—	(2)	—
Depreciation	(19)	(117)	(821)	(1,785)	(23)	(2,765)	(17)
Closing net book amount	1,642	349	1,557	3,032	41	6,621	—
At 31 December 2009							
Cost	1,662	2,532	12,255	18,243	189	34,881	611
Accumulated depreciation	(20)	(2,183)	(10,698)	(15,211)	(148)	(28,260)	(611)
Net book amount	1,642	349	1,557	3,032	41	6,621	—
Year ended 31 December 2010							
Opening net book amount	**1,642**	**349**	**1,557**	**3,032**	**41**	**6,621**	**—**
Exchange differences	**168**	**16**	**(229)**	**808**	**—**	**763**	**—**
Additions	**—**	**46**	**1,727**	**2,186**	**184**	**4,143**	**—**
Write-off	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Reclassification	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Disposals	**—**	**—**	**(7)**	**(1)**	**—**	**(8)**	**—**
Depreciation	**(20)**	**(109)**	**(1,013)**	**(1,836)**	**(23)**	**(3,001)**	**—**
Closing net book amount	**1,790**	**302**	**2,035**	**4,189**	**202**	**8,518**	**—**
At 31 December 2010							
Cost	**1,834**	**2,604**	**13,411**	**21,563**	**247**	**39,659**	**611**
Accumulated depreciation	**(44)**	**(2,302)**	**(11,376)**	**(17,374)**	**(45)**	**(31,141)**	**(611)**
Net book amount	**1,790**	**302**	**2,035**	**4,189**	**202**	**8,518**	**—**

(i) Bank loan is secured by the land and building. Freehold land in Taiwan of US$757,000 (2009: US$686,000) was included in the land and building.

(ii) Depreciation expense of US$1,530,000 (2009: US$1,316,000) has been charged in cost of sales, US$1,125,000 (2009: US$1,049,000) in research and development costs and US$346,000 (2009: US$400,000) in administrative expenses.

(iii) The net book value of furniture, fixtures and equipment of US$2,035,000 (2009: US$1,557,000) includes an amount of US$45,000 (2009: US$10,000) in respect of assets held under finance leases.

17. Investments in associated companies – Group

	2010 US$'000	2009 US$'000
At 1 January	**4,493**	5,661
Acquisition of associated companies	**—**	690
Transfer to available-for-sale financial assets[(i)]	**(1,951)**	—
Share of results of associated companies	**(427)**	(791)
Provision for impairment loss [(ii)]	**(1,125)**	(1,067)
At 31 December	**990**	4,493

(i) On 17 March 2010, Advanced Photoelectronic Technology Limited ("APT'), one of the associated companies that the Group held 20.6% equity interest as at 31 December 2009, issued 4,120,098 new shares to strategic investors. As a result, the Group's holding was diluted to 10.3%. APT would no longer be accounted for under equity method of accounting as the Group has had no significant influence over APT since then.

The Group has recognized US$555,000 profit arising from this transaction, which represented the difference between the fair value of the retained investment in APT and the carrying amount of the investment at the date when significant influence ceased. The gain has been included in "share of results of associated companies" in the consolidated income statement.

The Group's retained investment in APT was subsequently recognized as an available-for-sale financial asset at a revised carrying amount represented by the fair value of the retained investment at the date when significant influence ceased.

(ii) The carrying amounts of the investments in associated companies have been reduced through recognition of an impairment loss of US $1,125,000 (2009: US$1,067,000) for Kitronix Limited and Shenzhen aigo Research and Development in 2010. The loss has been included in "share of results of associated companies" in the consolidated income statement.

(a) Investment during the year

There is no new acquisition in 2010. The details of the net assets of the associated companies acquired as of the date of acquisition in 2009 are as follows:

	2009	
	Beijing LED Lighting Engineering Co. Ltd.	
	Fair value US$'000	Carrying amount in the books of the associated company US$'000
Cash and cash equivalents	1,050	1,050
Intangible assets	313	1,175
Property, plant and equipment	16	16
Inventories	153	153
Trade and other receivables	37	37
Trade and other payables	(101)	(101)
Net assets	1,468	2,330
Fair value of net assets acquired	690	
Purchase consideration settled in cash	690	
Goodwill	—	

17. Investments in associated companies – Group (continued)

(b) Aggregated assets & liabilities and the results of the year

The aggregated assets (excluding goodwill) and liabilities together with the results of the year of the Group's associated companies, all of which are unlisted, are as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	As at 31 December 2010 Assets US$'000	Liabilities US$'000	For the year ended 31 December 2010 Revenue US$'000	Loss US$'000	Interest held
EPD Technology Limited	Hong Kong	Design, development, manufacturing & distribution of E-paper display modules	100,000 ordinary shares of HK$1 each	135	2,412	34	(124)	40.0%
Kitronix Limited	Hong Kong	Design, development, manufacturing & distribution of LCD modules	9,500,000 ordinary shares of HK$1 each	4,223	809	3,810	(1,633)	25.0%
Shenzhen aigo Research and Development Co., Ltd	China	Design, development and distribution of mobile multimedia solutions	20% of the registered and paid-up capital of CNY5,000,000	810	370	256	(494)	20.0%
Beijing LED Lighting Engineering Co., Ltd	China	LED system design and contract installation	47% of the registered and paid-up capital of CNY10,000,000	1,671	523	2,154	(250)	47.0%

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	As at 31 December 2009 Assets US$'000	Liabilities US$'000	For the year ended 31 December 2009 Revenue US$'000	Loss US$'000	Interest held
EPD Technology Limited	Hong Kong	Design, development, manufacturing & distribution of E-paper display modules	100,000 ordinary shares of HK$1 each	983	2,352	30	(484)	40.0%
Kitronix Limited	Hong Kong	Design, development, manufacturing & distribution of LCD modules	9,500,000 ordinary shares of HK$1 each	6,460	1,410	15,511	(561)	25.0%
Shenzhen aigo Research and Development Co., Ltd	China	Design, development and distribution of mobile multimedia solutions	20% of the registered and paid-up capital of CNY5,000,000	1,149	246	645	(56)	20.0%
Advanced Photoelectronic Technology Limited	Hong Kong	Development, manufacturing, sale of high-brightness light-emitting devices	841,469 ordinary shares of HK$1 each	10,097	1,672	1,359	(2,891)	20.6%(i)
Beijing LED Lighting Engineering Co., Ltd	China	LED system design and contract installation	47% of the registered and paid-up capital of CNY10,000,000	1,425	101	355	(171)	47.0%

(i) The percentage of holding was lowered to 10.3% upon the completion of new fund raising in March 2010. The investment was subsequently recognized as an available-for-sale financial asset (note 19).

18. Investments in subsidiaries

(a) Investments in subsidiaries

	Company	
	2010	2009
	US$'000	US$'000
Investments in unlisted shares, at cost	**68,412**	68,236
Provision for impairment loss	**(2,048)**	(616)
	66,364	67,620

(b) Amounts due from/(to) subsidiaries

	Company	
	2010	2009
	US$'000	US$'000
Amounts due from subsidiaries	**22,904**	26,020
Provision for impairment loss	**(2,368)**	(6,506)
	20,536	19,514
Amounts due to subsidiaries	**(48)**	(48)

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

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

The provision for impairment was concluded from the assessment of the cash flow position of the subsidiaries, taking into consideration of the forecasted performance and development of those subsidiaries by management.

On 19 March 2010, the Group set up a new subsidiary, SSBJ, in Beijing, China with registered capital of US$8,000,000. US$4,200,000 was injected to the entity. The balance of registered capital will be paid up by March 2012.

During the year, the Group has set up a new subsidiary 維深通訊（深圳）有限公司 ("WE3-sz-new") in Shenzhen, China to replace the operation of 維駿通訊產品（深圳）有限公司 ("WE3-sz-old").

18. Investments in subsidiaries (continued)

(c) Particulars of subsidiaries

The following is a list of the principal subsidiaries at 31 December 2010:

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")	Design, development, distribution of integrated circuits and system solutions, 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%
Broadwood Global Limited ("BGL")	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%
In Achieve Limited ("In Achieve")	The British Virgin Islands, LLC	Investment holding, Hong Kong	50,000 ordinary shares of US$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%
Pac-Pacific Limited ("Pac-Pacific")	Hong Kong, LLC	Investment holding, Hong Kong	2 ordinary shares of HK$1 each	100%
WE3 Ventures Limited ("WE3-BVI")	The British Virgin Islands, LLC	Investment holding, Hong Kong	108,930 ordinary shares of US$0.01 each	100%
Indirectly held:				
Jing Guang Semiconductors (Dongguan) Limited ("JGDG")	China, LLC	Manufacturing of integrated circuits, China	US$5,500,000 registered and paid up capital	100%
Solomon Systech (Beijing) Limited ("SSBJ")	China, LLC	Design and distribution of integrated circuits, China	US$8,000,000 registered capital with US$4,200,000 paid up	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 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	Design and distribution of integrated circuits, Singapore	480,000 ordinary shares of SGD1 each	100%
Solomon Systech (Shenzhen) Limited ("SSSZ")	China, LLC	Design and distribution of integrated circuits, China	HK$8,000,000 registered and paid up capital	100%
Solomon Systech Taiwan Limited ("SST")	Republic of China ("Taiwan"), LLC	Market research, Taiwan	5,000,000 ordinary shares of TWD10 each	100%
Systech Technology China Limited ("STCL")	Hong Kong, LLC	Investment holding, Hong Kong	10,000 ordinary shares of HK$1 each	100%
WE3 Technology Company Limited ("WE3")	Hong Kong, LLC	Design, development & distribution of handset solutions, Hong Kong	32,390,000 ordinary shares of HK$1 each	100%
維駿通訊產品（深圳）有限公司(i) ("WE3 – sz – old")	China, LLC	Design and development of electronic & wireless application, China	CNY100,000 registered and paid up capital	100%
維深通訊（深圳）有限公司 ("WE3 – sz – new")	China, LLC	Design and development of electronic & wireless application, China	CNY600,000 registered and paid up capital	100%

(i) The Company is in the process of voluntary winding up.

19. Available-for-sale financial assets – Group

	2010 US$'000	2009 US$'000
Unlisted shares, at cost	4,781	4,781
Transfer from an investment in associated company (note 17)	2,506	—
Disposal of investment in an available-for-sale financial asset	(2,346)	—
	4,941	4,781
Provision for impairment loss	(2,435)	(2,435)
	2,506	2,346

An investment in available-for-sale financial asset was disposed of during the year. The proceeds from disposal of the available-for-sale financial asset is listed below:

	2010 US$'000	2009 US$'000
Unlisted shares, at cost	2,346	1,556
Provision for impairment loss	—	(1,367)
Unlisted shares – net	2,346	189
Gain on disposal (note 7)	3,186	95
Proceeds from disposal	5,532	284

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

	Group		Company	
	2010	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000
Cash at bank and in hand	**24,375**	15,378	**5,447**	5,146
Short-term bank deposits(i)	**26,727**	29,420	**26,051**	6,716
Cash and cash equivalents	**51,102**	44,798	**31,498**	11,862
Short-term fixed deposits(ii)	**27,219**	45,318	**26,218**	45,318
Other financial assets(iii)	**1,278**	2,713	**1,278**	2,713
	79,599	92,829	**58,994**	59,893

(i) The effective interest rate on short-term bank deposits was 0.5% per annum (2009: 1.5% per annum); these deposits have an average maturity of 19 days (2009: 20 days).

(ii) The effective interest rate on short-term fixed deposits was 1.3% per annum (2009: 1.4% per annum); these deposits have an average maturity of 169 days (2009: 215 days).

(iii) Other financial assets represent the structured bank deposits. These deposits have interest rate ranging from 0.3 % to 7.5 % (2009: 4.0% to 9.3%) and an average maturity of 29 days (2009: 26 days).

The carrying amounts of the Group's and the Company's cash and cash equivalents, short-term fixed deposits and other financial assets are denominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000
US Dollar (USD)	**66,898**	82,412	**51,868**	54,786
Hong Kong Dollar (HKD)	**3,720**	5,666	**1,733**	2,294
Chinese Yuan (CNY)	**5,052**	1,400	**1,854**	—
Other currencies	**3,929**	3,351	**3,539**	2,813
	79,599	92,829	**58,994**	59,893

21. Inventories – Group

	2010 US$'000	2009 US$'000
Finished goods	5,216	4,607
Raw materials and work in progress	14,216	11,721
	19,432	16,328
Provision for obsolete or slow moving inventories	(5,654)	(6,026)
	13,778	10,302

The cost of inventories recognized as an expense and included in cost of sales amounted to US$59,090,000 (2009: US$41,683,000).

Movements on the provision for obsolete or slow moving inventories are as follows:

	2010 US$'000	2009 US$'000
At 1 January	6,026	10,104
Scrap of inventories	(553)	(540)
Provision/(write-back of provision) for obsolete or slow moving inventories	181	(3,538)
At 31 December	5,654	6,026

22. Trade and other receivables – Group

	2010 US$'000	2009 US$'000
Trade receivables	13,327	10,546
Provision for impairment	—	—
Trade receivables - net	13,327	10,546
Deposits, prepayments and other receivables[(i)]	9,150	2,910
	22,477	13,456

(i) The figure included US$5,532,000 proceeds from disposal of an available-for-sale financial asset.

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

	2010 US$'000	2009 US$'000
Current	10,876	8,166
1 - 30 days	2,330	2,029
31 - 60 days	120	222
61 - 90 days	—	72
91 - 180 days	—	27
181 - 365 days	1	30
	2,451	2,380
	13,327	10,546

As at 31 December 2010, trade receivables of US$2,451,000 (2009: US$2,380,000) were considered past due if measured strictly against the credit terms offered. The overdue sum is not impaired since the majority of the overdue sum has been settled after the balance sheet date.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2010 US$'000	2009 US$'000
US Dollar (USD)	20,857	12,314
Hong Kong Dollar (HKD)	805	768
Singapore Dollar (SGD)	122	98
Other currencies	693	276
	22,477	13,456

As at 31 December 2010 and 2009, no trade receivables was impaired and provided for.

22. Trade and other receivables – Group (continued)

Movements on the Group's provision for impairment of trade receivables are as follows:

	2010 US$'000	2009 US$'000
At 1 January	—	60
Write-back of provision for impairment of receivables	—	(27)
Uncollectible receivables written off	—	(33)
At 31 December	—	—

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

23. Financial assets at fair value through profit or loss

	Group		Company	
	2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'000
Unlisted				
Equity-linked deposits	1,481	2,497	1,481	2,497
Deposit notes	6,515	3,476	2,000	1,476
Investment fund	1,048	1,034	—	—
Marketable bonds	7,106	4,812	4,921	3,391
Listed in Hong Kong				
Equity securities	8,291	8,144	8,291	8,144
Fund	593	72	593	72
	25,034	20,035	17,286	15,580

Changes in fair values of financial assets at fair value through profit or loss are recorded in "finance income - net" in the consolidated income statement (note 7).

The fair values of listed financial instruments are based on quoted market prices at the balance sheet date. The equity-linked deposits are structured products linked to equity price which are not listed but with active valuation from reputable financial institution. The fair values of these unlisted financial instruments are determined by reference to the dealer's quote or input from reputable financial institutions.

23. Financial assets at fair value through profit or loss (continued)

The carrying amounts of financial assets at fair value through profit or loss are denominated in the following currencies:

	Group		Company	
	2010 **US$'000**	2009 US$'000	**2010** **US$'000**	2009 US$'000
Monetary:				
US Dollar (USD)	**13,706**	8,451	**5,958**	3,996
Hong Kong Dollar (HKD)	**1,115**	2,469	**1,115**	2,469
Other currencies	**1,922**	971	**1,922**	971
Non-monetary:				
Hong Kong Dollar (HKD)	**8,291**	8,144	**8,291**	8,144
	25,034	20,035	**17,286**	15,580

24. Share capital

	2010		2009	
	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	**2,447,302,351**	**31,542**	2,445,302,351	31,516
Exercise of share options	**6,000,000**	**77**	2,000,000	26
At 31 December	**2,453,302,351**	**31,619**	2,447,302,351	31,542

25. Employee compensation scheme

(a) The Share Option Scheme

The Company 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, incentivizing, 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 30 June 2010, 6,300,000 share options granted on 28 June 2007 with an exercise price of HK$1.118 per share were lapsed and 72,000 share options granted on 7 February 2007 with an exercise price of HK$1.43 per share were also forfeited and cancelled.

On 28 June 2010, options to subscribe for 12,000,000 new shares of the Company were granted by the Company to directors and senior management of the Company at a nominal consideration of HK$1.0 payable by each grantee under the Share Option Scheme. These options are exercisable during the period from 1 July 2011 to 30 June 2013 at the exercise price of HK$0.62 per share.

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

Grant date	Exercise price in HK$ per share	Held at 1 January 2010	Movement during the year Number of share options (in thousand unit) Granted	Exercised[i]	Forfeited and cancelled	Lapsed	Held at 31 December 2010	Expiry date
7 February 2007	1.430	1,528	—	—	—	—	1,528	31 March 2011
7 February 2007	1.430	2,292	—	—	(72)	—	2,220	31 March 2012
28 June 2007	1.118	6,300	—	—	—	(6,300)	—	30 June 2010
24 July 2008	0.275	9,000	—	(6,000)	—	—	3,000	30 June 2011
13 July 2009	0.632	11,000	—	—	—	—	11,000	30 June 2012
28 June 2010	0.620	—	12,000	—	—	—	12,000	30 June 2013
		30,120	12,000	(6,000)	(72)	(6,300)	29,748	

(i) Options exercised in 2010 resulted in 6,000,000 shares (2009: 2,000,000) being issued at a weighted average price of HK$0.275 each (2009: HK$0.275 each).

25. Employee compensation scheme (continued)

(a) The Share Option Scheme (continued)

The Company has been using the Black-Scholes Valuation Model to value the share options granted. The key parameters used in the Model and the corresponding fair values of the options granted during 2010 and 2009 are listed below:

	2010	2009
Date of grant	**28 June**	13 July
Number of share options granted	**12,000,000**	11,000,000
Total option value	**US$242,000**	US$307,000
	HK$1,877,000	HK$2,382,000
Share price at date of grant (HK$)	**0.620**	0.632
Exercise price (HK$)	**0.620**	0.632
Expected life of options	**2 years**	2 years
Annualized volatility	**48.2%**	79.7%
Risk free interest rate	**0.76%**	0.39%
Dividend payout rate	**1.6%**	4.9%

The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the Model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily closing share prices over the last one year.

25. Employee 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 as Trustee for the benefit of the directors and employees.

Under the terms and conditions of the grant, 40% of the shares will be vested 1 year from the grant date and the remaining 60% will be vested 2 years from the grant date. At 31 December 2010, the number of shares allocated but remained unvested under the Trustee for directors and employees of the Group was 2,174,000 while the total number of shares held by the Trustee was 3,543,520. With the approval of the Remuneration Committee of the Company, the Trustee executed the instruction to replenish the pool by purchasing 2,000,000 shares at a price of HK$0.67 using the cash held by the Trustee in February 2010.

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

	Number of shares	
	2010	2009
At 1 January	**10,547,520**	22,507,520
Share purchased from market	**2,000,000**	—
Shares vested during the year	**(9,004,000)**	(11,960,000)
At 31 December 2010	**3,543,520**	10,547,520

The following is a summary of the shares granted, vested and forfeited during the year since the set up of the Share Award Plan:

		Number of shares (in thousand unit)				
	Cumulative Total	**2010**	2009	2008	2007	2004-2006
Granted during the year	70,600	**860**	2,800	15,670	13,160	38,110
Shares forfeited	(7,478)	**—**	(410)	(2,126)	(2,108)	(2,834)
Shares vested	(60,948)	**—**	(1,076)	(13,544)	(11,052)	(35,276)
Allocated but not vested	2,174	**860**	1,314	—	—	—

The Group has adopted the requirements under HKFRS 2 to account for the equity compensation expenses of the shares granted at the date of grant at fair value.

26. Reserves

(a) Group

	Share premium US$'000	Own shares held US$'000	Merger reserve US$'000	Exchange reserve US$'000	Equity compensation reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2009	82,809	(1,458)	2,082	646	15,064	—	12,908	112,051
Comprehensive income								
Profit for the year	—	—	—	—	—	—	684	684
Currency translation differences	—	—	—	4	—	—	—	4
Total comprehensive income	—	—	—	4	—	—	684	688
Transactions with owners								
2008 final dividend paid, net of portion for own shares held	—	—	—	—	—	—	(9,466)	(9,466)
Shares issued from exercise of share options	46	—	—	—	—	—	—	46
Equity compensation	—	600	—	—	740	—	(600)	740
Purchase of non-controlling interests	—	—	—	—	—	230	—	230
Total transactions with owners	46	600	—	—	740	230	(10,066)	(8,450)
At 31 December 2009	82,855	(858)	2,082	650	15,804	230	3,526	104,289
At 1 January 2010	**82,855**	**(858)**	**2,082**	**650**	**15,804**	**230**	**3,526**	**104,289**
Comprehensive income								
Profit for the year	—	—	—	—	—	—	**1,040**	**1,040**
Currency translation differences	—	—	—	**769**	—	—	—	**769**
Total comprehensive income	—	—	—	**769**	—	—	**1,040**	**1,809**
Transactions with owners								
2009 final dividend paid, net of portion for own shares held	—	—	—	—	—	—	**(3,166)**	**(3,166)**
Shares issued from exercise of share options	**135**	—	—	—	—	—	—	**135**
Shares purchased for Share Award Scheme	—	**(174)**	—	—	—	—	—	**(174)**
Equity compensation	—	**753**	—	—	**449**	—	**(753)**	**449**
Total transactions with owners	**135**	**579**	—	—	**449**	—	**(3,919)**	**(2,756)**
At 31 December 2010	**82,990**	**(279)**	**2,082**	**1,419**	**16,253**	**230**	**647**	**103,342**

26. Reserves (continued)

(b) Company

	Share premium US$'000	Equity compensation reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2009	108,423	15,064	12,396	135,883
Comprehensive income				
Profit for the year	—	—	3,853	3,853
Transactions with owners				
2008 final dividend paid	—	—	(9,466)	(9,466)
Shares issued from exercise of share options	46	—	—	46
Equity compensation	—	740	—	740
Total transactions with owners	46	740	(9,466)	(8,680)
At 31 December 2009	108,469	15,804	6,783	131,056
At 1 January 2010	**108,469**	**15,804**	**6,783**	**131,056**
Comprehensive income				
Profit for the year	**—**	**—**	**3,321**	**3,321**
Transactions with owners				
2009 final dividend paid	**—**	**—**	**(3,166)**	**(3,166)**
Shares issued from exercise of share options	**135**	**—**	**—**	**135**
Equity compensation	**—**	**449**	**—**	**449**
Total transactions with owners	**135**	**449**	**(3,166)**	**(2,582)**
At 31 December 2010	**108,604**	**16,253**	**6,938**	**131,795**

27. Obligations under finance leases – Group

	2010 US$'000	2009 US$'000
Wholly repayable within five years	**47**	13
Current portion	**(12)**	(6)
Non-current portion	**35**	7

At 31 December 2010, the Group's finance lease liabilities were repayable as follows:

	2010 US$'000	2009 US$'000
Within one year	**12**	6
In the second to fifth year	**36**	8
	48	14
Future finance charges on finance leases	**(1)**	(1)
Present value of finance lease liabilities	**47**	13
The present value of finance lease liabilities:		
– Within one year	**12**	6
– In the second to fifth year	**35**	7
	47	13

28. Deferred income tax

Deferred income tax is recognized using liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements using a principal tax rate of 16.5% (2009: 16.5%).

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

	Group		Company	
	2010	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000
At 1 January	**50**	108	**—**	3
Credited to the income statement (note 10)	**—**	(58)	**—**	(3)
At 31 December	**50**	50	**—**	—

The movement in deferred income tax liabilities during the year is as follows:

	Group Accelerated tax depreciation	**Company Accelerated tax depreciation**
	US$'000	US$'000
At 1 January 2009	108	3
Credited to the income statement	(58)	(3)
At 31 December 2009	50	—
Credited to the income statement	**—**	**—**
At 31 December 2010	**50**	**—**

29. Trade and other payables – Group

	2010 US$'000	2009 US$'000
Trade payables	11,835	9,283
Accrued expenses and other payables[i]	5,326	3,241
	17,161	12,524
Other payables – non-current portion	—	(133)
	17,161	12,391

(i) The figure included CNY6,222,000 (approximately US$943,000) balance payment of the prepaid operating lease in respect of the land use rights in Beijing, China.

At 31 December 2010, the ageing analysis of the trade payables based on overdue days is as follows:

	2010 US$'000	2009 US$'000
Current	8,524	8,261
1 - 30 days	3,201	947
31 - 60 days	36	19
61 - 90 days	34	8
Over 90 days	40	48
	11,835	9,283

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2010 US$'000	2009 US$'000
US Dollar (USD)	13,126	10,290
Hong Kong Dollar (HKD)	1,820	1,530
Chinese Yuan (CNY)	1,550	424
Other currencies	665	280
	17,161	12,524

30. Bank loan – Group

At 31 December 2010, the Group had a bank borrowing of NT$22,646,000 (2009: NT$25,391,000), approximately US$781,000 (2009: US$794,000) in connection with a mortgaged office property in Hsinchu, Taiwan acquired in late 2008. The bank borrowing matures by 14 January 2019 and bears an interest rate of long-term funding determined by the Council of Economic Planning and Development of Taiwan Government plus 0.41%.

The fair value of the bank borrowing approximates its carrying amount as it is subject to a floating rate and is wholly denominated in Taiwan dollars.

31. Banking facilities – Group

At 31 December 2010, the unused banking facilities of the Group amounted to US$12,462,000 (2009: US$17,591,000).

32. Cash used in operations – Group

(a) Reconciliation of profit/(loss) before income tax to cash used in operations

	2010 US$'000	2009 US$'000
Profit/(loss) before income tax	741	(531)
Depreciation of property, plant and equipment (note 16)	3,001	2,765
Share of results of associated companies (note 17)	427	791
Finance costs	13	15
Equity compensation	449	740
Gain on disposal of available-for-sale financial assets	(3,186)	(95)
Provision for impairment loss of investment in associated companies (note 17)	1,125	1,067
Gain on disposal of property, plant and equipment (note 32(b))	(14)	(9)
Gain on deemed disposal of an associated company	(555)	—
Gain on disposal of financial assets at fair value through profit or loss (note 7)	(141)	(1,017)
Fair value decrease/(increase) in financial assets at fair value through profit or loss	60	(3,412)
Interest income (note 7)	(1,167)	(2,104)
	753	(1,790)
Increase in trade and other receivables[i]	(3,890)	(1,471)
Increase in inventories	(3,476)	(3,564)
Increase/(decrease) in trade and other payables[i]	3,911	(3,132)
Cash used in operations	(2,702)	(9,957)

(b) Proceeds from disposal of property, plant and equipment

	2010 US$'000	2009 US$'000
Net book amount (note 16)	8	2
Gain on disposal of property, plant and equipment (note 8)	14	9
Proceeds from disposal of property, plant and equipment	22	11

(i) The proceeds from disposal of an available-for-sale financial asset of US$5,532,000 and also the balance payment of the prepaid operating lease in respect of the land use rights in Beijing, China amounted to US$943,000 noted in note 22 - the trade and other receivables and note 29 - the trade and other payables respectively, are excluded.

33. Commitments – Group

(a) Capital commitments

Capital expenditure committed at the balance sheet date but not yet contracted for and incurred is as follows:

	2010 US$'000	2009 US$'000
Approved but not contracted for[i]	2,250	1,541
Contracted but not provided for	—	—

(i) As at 31 December 2010, there was US$2,250,000 capital expenditure approved but not contracted for in respect of the preliminary set up of the land in Beijing, China to prepare for construction.

(b) Operating lease commitments – the Group as lessee

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

	2010 US$'000	2009 US$'000
Not later than 1 year	1,265	1,145
Later than 1 year and not later than 5 years	753	1,642
Later than 5 years	—	82
	2,018	2,869

34. Event after the balance sheet date

BJ-LED, the associated company that the Group has 47% ownership of the registered capital as at 31 December 2010 proposed a fund raising of CNY10,000,000 by means of 1 to 1 capital injection based on the existing percentage of ownership in the registered capital of BJ-LED in March 2011. Following the decision of the Investment Committee, the Group decided not to participate in the said fund raising exercise. Subject to the satisfactory completion of the said fund raising exercise, it is estimated that the Group's percentage ownership will be diluted to 23.5%. BJ-LED will continue to be accounted for under equity method of accounting.

35. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors on 24 March 2011.

FIVE-YEAR FINANCIAL SUMMARY

US$ million	2010	2009	2008	2007	2006
Sales	84.7	61.8	92.8	165.0	254.1
Gross profit	25.6	20.4	16.9	39.5	59.3
Net profit/(loss)	1.0	0.7	(23.4)	10.2	22.4
Assets and liabilities					
– Total assets	154.2	150.2	162.3	202.4	221.1
– Total liabilities	(19.2)	(14.4)	(18.5)	(30.3)	(41.2)
– Shareholders' funds	135.0	135.8	143.8	172.1	179.9
Earnings/(loss) per share					
– Basic [(i)] (US cent)	0.04	0.03	(0.97)	0.42	0.91
– Diluted [(ii)] (US cent)	0.04	0.03	(0.96)	0.41	0.90
Dividends per share (US cent)	—	0.13	0.39	0.39	0.77
Net asset per share [(i)] (US$)	5.53	5.59	5.95	7.02	7.29

(i) The basic earnings/(loss) and net assets per share are based on the weighted average of 2,467,035,647, 2,453,274,184, 2,416,930,170, 2,429,743,177 and 2,442,244,818 ordinary shares in issue excluding own shares held during each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010 respectively.

(ii) For 2006, 2007, 2008, 2009 and 2010, the diluted earnings/(loss) per share information is based on 2,491,931,274 , 2,476,967,789, 2,437,669,973, 2,457,281,028 and 2,454,078,716 ordinary shares respectively, which are the adjusted weighted average number of ordinary shares outstanding assuming conversion of all dilute/potential share options outstanding but excluding unallocated own shares held during the year.

CORPORATE AND SHAREHOLDER INFORMATION

Financial Calendar

Financial Year End	31 December
Interim Results Announced	18 August 2010
Annual Results Announced	24 March 2011
Closure of Register of Members	25 – 30 May 2011
Annual General Meeting	30 May 2011

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	2,453,302,351 (as at 31 December 2010)

Share Registrars

Tricor Investor Services Limited
26/F Tesbury Centre
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Tel: (852) 2980 1333
Fax: (852) 2810 8185
Website: www.tricoris.com

Independent Auditor

PricewaterhouseCoopers

Solicitors

ReedSmith Richards Butler

Principal Office

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Hong Kong
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Fax: (852) 2267 0800

Company Secretary

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Vice President, Finance

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Mr. John Leong
Vice President, Corporate Development
Email: ir@solomon-systech.com

Corporate Communications

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Corporate Communications Director
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Website

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This 2010 Annual Report ("Annual Report") (in both English and Chinese versions) has been posted on the Company's website at www.solomon-systech.com.

Shareholders who have chosen to receive the Company's Corporate Communications (including but not limited to annual report, summary financial report (where applicable), interim report, summary interim report (where applicable), notice of meeting, listing document, circular and proxy form) via the Company's website and for any reason have difficulty in gaining access to the Annual Report posted on the Company's website will promptly upon request be sent by post the Annual Report in printed form free of charge.

Shareholders who have chosen to receive the Company's Corporate Communications in either English or Chinese version may request for the other language version of the Annual Report.

Shareholders may at any time change their choice of means of receipt and language of the Corporate Communications.

Shareholders may request for printed copy of the Annual Report or change their choice of means of receipt and language of the Corporate Communications by sending reasonable notice in writing to the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong or by sending an email to solomon2878-ecom@hk.tricorglobal.com.

2004 Annual Report

Best of Hong Kong
2005 International ARC Awards

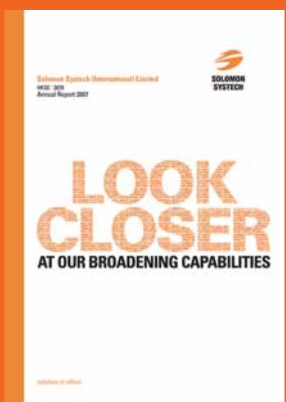
2005 Annual Report

Annual Report Printing Champion,
The 18th Hong Kong Print Awards
Gold Winner,
2006 International ARC Awards

2006 Annual Report

Gold Winner,
2007 International ARC Awards
Gold Winner,
2007 Galaxy Awards

2007 Annual Report



2008 Annual Report

2009 Annual Report

Gold Winner,
2010 International ARC Awards

Solomon Systech's annual reports are available at
http://www.solomon-systech.com/financials/fin_reports.htm

PR Consultant: Strategic Financial Relations Limited   Design & Concept: Phoenix Communications Limited

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