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SOLOMON SYSTECH (INTERNATIONAL) LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2878)

2013 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Sales increased by 13% to US\$31.1 million
- Gross profit increased from US\$11.6 million to US\$12.8 million
- Gross margin was 41.0%
- Results from core businesses returned to a profit of US\$0.8 million (1H 2012 loss: US\$1.4 million)
- Net profit was US\$0.8 million (1H 2012 net loss: US\$1.8 million)
- Earnings per share was 0.03 US cent (0.26 HK cent)
- Book-to-bill ratio was 0.8
- The Board of Directors resolved not to declare any interim dividend for the six months ended 30 June 2013

INTERIM RESULTS

The Directors of Solomon Systech (International) Limited are pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2013 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2013

	Note	Unaudited Six months ended 30 June	
		2013 US\$'000	2012 US\$'000
Sales	4	31,142	27,569
Cost of sales	5	(18,363)	(15,942)
Gross profit		12,779	11,627
Research and development costs	5	(6,755)	(7,067)
Selling and distribution expenses	5	(1,645)	(1,508)
Administrative expenses	5	(4,061)	(4,501)
Other income		448	70
Finance income/ (loss) – net	6	766 (572)	(1,379) 1,824
		194	445
Results of associated companies:			
– Share of results of associated companies		31	(1,827)
– Provision for impairment loss		—	(442)
Profit/ (loss) before income tax		225	(1,824)
Income tax credit/ (expenses)	7	597	(2)
Profit/ (loss) attributable to the equity holders of the Company		822	(1,826)
Earnings/ (loss) per share attributable to the equity holders of the Company: (expressed in US cent per share)	8		
– Basic		0.03	(0.07)
– Diluted		0.03	(0.07)
Dividend	9	—	—

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Unaudited Six months ended 30 June	
	2013 US\$'000	2012 US\$'000
Profit/ (loss) for the period	822	(1,826)
Other comprehensive loss for the period:		
Item that may be reclassified to profit or loss		
– Currency translation differences	(49)	(105)
Total comprehensive income/ (loss) attributable to the equity holders of the Company	773	(1,931)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2013

	Note	Unaudited 30 June 2013 US\$'000	Audited 31 December 2012 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		3,473	4,190
Investments in associated companies		702	672
Available-for-sale financial assets		2,206	2,206
		6,381	7,068
Current assets			
Inventories		8,751	6,788
Trade and other receivables	10	14,398	15,227
Financial assets at fair value through profit or loss		62,128	63,431
Pledged bank deposits		130	130
Short-term fixed deposits		7,355	1,550
Cash and cash equivalents		29,461	36,816
		122,223	123,942
Total assets		128,604	131,010
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		31,689	31,658
Reserves			
Own shares held		(122)	(122)
Others		85,260	84,413
Total equity		116,827	115,949
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		3	3
Bank loan		450	497
Deferred income tax	7	—	50
		453	550
Current liabilities			
Obligations under finance leases		1	3
Trade and other payables	11	10,695	13,413
Financial liabilities at fair value through profit or loss		81	—
Bank loan		95	95
Income tax	7	452	1,000
		11,324	14,511
Total liabilities		11,777	15,061
Total equity and liabilities		128,604	131,010
Net current assets		110,899	109,431
Total assets less current liabilities		117,280	116,499

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. General information

Solomon Systech (International) Limited and its subsidiaries are fabless semiconductor companies specializing in the design, development and sales of proprietary IC products and system solutions that enable a wide range of display applications for smartphones, smart TVs, smart projectors and other smart devices including consumer electronics products, portable devices, 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 Cap.22, the Cayman Islands Companies Law (Law 3 of 1961, as consolidated and revised). The address of its registered office is P.O. Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands and the address of its principal office in Hong Kong Special Administrative Region 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 since 8 April 2004. This condensed consolidated interim financial information is presented in US dollars, unless otherwise stated.

This condensed consolidated interim financial information has been reviewed but not audited, and it was approved for issue on 22 August 2013.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2013 of the Group has been prepared in accordance with HKAS 34 "Interim Financial Reporting".

The condensed consolidated interim financial information should be read in conjunction with the Company's annual report for the year ended 31 December 2012, which was prepared in accordance with Hong Kong Financial Reporting Standards.

3. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2012, as described in those annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New, revised standards and amendments to standards effective in 2013

The Group has adopted the following new, revised standards and amendments to standards that have been issued and effective for the Group's financial year commencing on 1 January 2013:

HKAS 19 (Revised 2011)	Employee benefits
HKAS 27 (Revised 2011)	Separate financial statements
HKAS 28 (Revised 2011)	Investments in associates and joint ventures
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKFRS 1 (Amendment)	First-time adoption of HKFRS - government loans
HKFRS 7 (Amendment)	Disclosures - offsetting financial assets and financial liabilities
Annual improvement projects	Improvements to HKASs and HKFRSs 2011
Amendments to HKFRS 10, 11 and 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance

The adoption of the above new, revised standards and amendments to standards did not result in substantial changes to the accounting policies of the Group and had no material impact on how the results and financial positions for the current or prior accounting periods have been prepared and presented.

There are no other new, revised standards and amendments to standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

(b) New standard and amendments to standards that are not effective and have not been early adopted by the Group

The following new and amendments to standards have been issued, but not effective for the financial year beginning 1 January 2013 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKAS 32 (Amendment)	Financial instruments: Presentation - Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9	Financial instruments	1 January 2015
Amendments to HKFRS 7 and 9	Mandatory effective date of HKFRS 9 and transition disclosures	1 January 2015
Amendments to HKFRS 10, 12 and HKAS 27	Investments Entities	1 January 2014

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

4. Segment information

The Group has been principally engaged in the design, development and sales of proprietary IC products and system solutions that enabled a wide range of display applications for smartphones, smart TVs, smart projectors and other smart devices including consumer electronics products, portable devices, 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 reviewed the Group's internal reporting to assess performance and allocate resources. A management approach has been used for the operating segment reporting.

(a) Sales

Sales amounted to US\$31,142,000 and US\$27,569,000 for the six months ended 30 June 2013 and 2012 respectively.

The Company is domiciled in Hong Kong. The Group mainly operates in Hong Kong. The sales of the Group were mainly to customers located in Hong Kong, China, Taiwan and Europe.

	Unaudited Six months ended 30 June	
	2013 US\$'000	2012 US\$'000
Hong Kong	8,216	7,083
China	7,904	4,252
Taiwan	4,669	4,960
Europe	4,540	4,880
South East Asia	2,221	2,254
Korea	2,102	2,048
Japan	1,168	971
USA	244	817
Others	78	304
	31,142	27,569

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

(b) Total assets

	Unaudited 30 June 2013 US\$'000	Audited 31 December 2012 US\$'000
Hong Kong	98,160	107,218
China	23,758	17,964
Taiwan	5,881	4,450
South East Asia	683	1,188
Others	122	190
	128,604	131,010

Assets are listed based on where the assets are located. Others comprise Japan and USA.

(c) Capital expenditures

	Property, plant and equipment Unaudited Six months ended 30 June	
	2013 US\$'000	2012 US\$'000
Hong Kong	39	78
China	87	161
Tawian	36	—
	162	239

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

5. Expenses by nature

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

	Unaudited	
	Six months ended 30 June	
	2013	2012
	US\$'000	US\$'000
Cost of inventories sold	18,104	16,866
Product engineering costs	978	1,081
Write-back of provision for obsolete or slow moving inventories	(251)	(1,236)
Amortization of the prepaid operating lease	—	15
Depreciation of owned property, plant and equipment	802	1,224
Depreciation of leased property, plant and equipment	1	3
Operating leases for land and buildings	519	648
Employee benefit expenses (including Directors' emoluments):		
– Equity compensation	54	33
– Non-equity compensation	8,502	8,541
Net exchange (gain)/ loss	44	(32)

6. Finance income/ loss – net

	Unaudited	
	Six months ended 30 June	
	2013	2012
	US\$'000	US\$'000
Gain on disposal of FVTPL	189	23
Interest income	1,283	714
Dividend income	188	167
Net unrealizable gain or loss from FVTPL:		
– Fair value gain of financial assets	91	1,220
– Fair value loss of financial assets	(2,211)	(271)
– Fair value loss of financial liabilities	(110)	(39)
Interest expense of bank loan	(5)	(6)
Others	3	16
	(572)	1,824

7. Income tax

Hong Kong income tax has been provided at the rate of 16.5% (2012: 16.5%) while overseas income tax has been provided at the rates of taxation prevailing in the countries in which the Group operates. No provision for Hong Kong income tax has been made as the Group has no estimated assessable profits for the six months ended 30 June 2013 and 2012.

	Unaudited	
	Six months ended 30 June	
	2013	2012
	US\$'000	US\$'000
Current income tax :		
– Hong Kong	—	—
– Overseas	1	2
Reversal of income tax provision	(548)	—
Reversal of deferred income tax provision	(50)	—
Income tax (credit)/ expenses	(597)	2

8. Earnings/ loss per share

Basic earnings/ loss per share

The basic earnings/ loss per share is calculated based on the Group's earnings for the period attributable to the equity holders of the Company of US\$822,000 (1H 2012 loss: US\$1,826,000) and the weighted average number of 2,455,183,693 (1H 2012: 2,454,575,820) ordinary shares in issue excluding own shares held during the current period.

Diluted earnings/ loss per share

The diluted earnings/ loss per share is calculated based on the Group's earnings/ loss attributable to the equity holders of the Company and the weighted average number of ordinary shares after adjusting for the effects of all dilutive potential ordinary shares including allocated but excluding unallocated own shares held during the periods.

The information related to the weighted average number of ordinary shares is as follows:

	Number of shares	
	Unaudited	
	Six months ended 30 June	
	2013	2012
Weighted average number of ordinary shares in issue	2,455,183,693	2,454,575,820
Allocated own shares held under Share Award Scheme	2,679,889	1,202,319
Conversion of all dilutive share options outstanding	3,571,857	—
Adjusted weighted average number of ordinary shares for diluted earnings/ loss per share calculation	2,461,435,439	2,455,778,139

The conversion of all dilutive share options outstanding and inclusion of allocated own shares held during the six months ended 30 June 2012 had an anti-dilutive effect on the loss per share. Hence, there was no dilutive effect on the calculation of the diluted loss per share for the period ended 30 June 2012.

9. Dividend

No dividend related to the year ended 31 December 2012 was declared or paid during the period. In addition, the Board resolved not to declare any interim dividend for the six months ended 30 June 2013.

10. Trade and other receivables

	Unaudited 30 June 2013 US\$'000	Audited 31 December 2012 US\$'000
Trade receivables	9,850	9,816
Trade receivables from related parties	1,589	3,161
Provision for impairment	(121)	(121)
Trade receivables – net	11,318	12,856
Deposits, prepayments and other receivables	3,011	2,199
Prepayments to related parties	69	172
	14,398	15,227

As at 30 June 2013, the Group's trade receivables from corporate customers were mainly on credit terms of 30 to 90 days. The ageing analysis of trade receivables not impaired based on overdue days is as follows:

	Unaudited 30 June 2013 US\$'000	Audited 31 December 2012 US\$'000
Current	7,646	8,998
1 - 30 days	2,538	3,500
31 - 60 days	896	254
61 - 90 days	68	86
91 - 180 days	53	18
181- 365 days	117	—
	3,672	3,858
	11,318	12,856

As at 30 June 2013, trade receivables of US\$3,672,000 (31 December 2012: US\$3,858,000) were considered past due if measured strictly against the credit terms offered. Majority of the overdue sum was not impaired since most of the overdue sum has been settled after the balance sheet date.

As at 30 June 2013, trade receivables of US\$121,000 (31 December 2012: US\$121,000) were impaired and provided for.

11. Trade and other payables

	Unaudited 30 June 2013 US\$'000	Audited 31 December 2012 US\$'000
Trade payables	7,330	10,785
Payables to related parties	9	63
Trade payable – total	7,339	10,848
Accrued expenses and other payables	3,336	2,546
Accrued expenses and other payables to related parties	20	19
	10,695	13,413

As at 30 June 2013, the ageing analysis of trade payables based on overdue days is as follows:

	Unaudited 30 June 2013 US\$'000	Audited 31 December 2012 US\$'000
Current	6,783	8,750
1 - 30 days	409	2,004
31 - 60 days	81	16
61 - 90 days	—	—
Over 90 days	66	78
	7,339	10,848

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

For the six months ended 30 June 2013, the Group's sales were US\$31.1 million (1H 2012: US\$27.6 million), increased by about 13% year-on-year. The Group's core business operation, i.e. the design, development and sales of proprietary IC products and system solutions, achieved a profit of US\$0.8 million (1H 2012 loss: US\$1.4 million).

Sales and Gross Profit

Total unit shipments of the Group's products increased slightly by around 4% from 46.0 million units in the 1H of 2012 to 47.8 million units in the 1H of 2013. The higher percentage of sales increase over shipment increase during the period under review was mainly attributed to the Group's strategy of changing its product mix to include more innovative, high value-added products which raised the blended ASP.

Gross profit of the Group was US\$12.8 million, up by 10% year-on-year (1H 2012: US\$11.6 million). Gross profit margin was 41.0% (1H 2012: 42.2%). Excluding the provision reversal for slow moving inventory of US\$0.3 million and US\$1.2 million for the 1H of 2013 and 1H of 2012 respectively, there was an effective increase in gross margin from 37.7% to 40.2%. This increase was attributed to the Group's strategy of focusing on innovative, high value-added smart products.

Costs and Expenses

The Group has remained vigilant in controlling its expenses. The Group's total expenses, including R&D costs, S&D expenses and administrative expenses, were US\$12.5 million (1H 2012: US\$13.1 million), down by US\$0.6 million, representing a decrease of 4.7%.

The Group continued to invest in R&D and business development, and remained selective in its R&D spending. Its R&D costs were US\$6.8 million (1H 2012: US\$7.1 million), representing 21.7% (1H 2012: 25.6%) of the sales.

S&D expenses were US\$1.6 million (1H 2012: US\$1.5 million). S&D expenses to sales ratio was 5.3% (1H 2012: 5.5%).

Administrative expenses were US\$4.1 million, decreased by US\$0.4 million compared with US\$4.5 million in 1H 2012.

Other Income

Other income totalled US\$0.5 million (1H 2012: US\$0.1 million), with US\$0.4 million attributed to a gain on disposal of certain manufacturing equipment.

Finance Income/ Loss - Net

During the period under review, the Group recorded an interest income of US\$1.3 million and dividends of US\$0.2 million totaling US\$1.5 million (1H 2012: US\$0.9 million).

Pursuant to mark-to-market prices as at 30 June 2013, a net unrealized loss of US\$2.2 million (1H 2012 net unrealized gain: US\$0.9 million) was recorded from the investment in the FVTPL portfolio at balance sheet date.

As a result, the Group recorded a net loss of US\$0.6 million (1H 2012 net gain: US\$1.8 million) from treasury investment.

Net Profit and Loss

The Group managed to attain a breakeven position for the period ended 30 June 2013, with a profit of US\$0.8 million from core businesses (1H 2012 loss: US\$1.4 million). The profit before tax for the six months ended 30 June 2013 was US\$0.2 million (1H 2012 loss before tax: US\$1.8 million)

Furthermore, there was a reversal of US\$0.6 million for a provision of Hong Kong income tax and deferred income tax. Accordingly, the profit attributable to the equity holders of the Company for the six months ended 30 June 2013 was US\$0.8 million, returning to profit from the loss of US\$1.8 million for the six months ended 30 June 2012.

The Board resolved not to declare any interim dividend for the six months ended 30 June 2013.

Liquidity and Financial Resources

Total cash and cash equivalents and bank deposits of the Group amounted to US\$36.8 million as at 30 June 2013, compared to US\$38.4 million as at 31 December 2012. Net cash used in operating activities during the period was US\$2.3 million (1H 2012: net cash generated from operating activities of US\$0.3 million). The change was mainly a result of an increase of US\$3.9 million in working capital.

Regarding the use of cash reserves, the Group will continue to allocate funds for product development, securing production capacity, strengthening its infrastructure in mainland China to broaden its customer base and capture market and sales opportunities, entering into strategic corporate ventures and meeting general corporate operational purposes. As at 30 June 2013, the Group had no major borrowing other than the US\$0.5 million in a mortgage loan for the purchase of an office property in Hsinchu, Taiwan. The Group's cash balance was mainly invested in various deposits in banks.

Most of the Group's trade receivables and payables are quoted in US dollars. The Group closely monitors the movement of 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 period under review, the Group did not use any derivative instruments to hedge against foreign currency exposure in operation as the Directors considered this exposure to be insignificant.

Capital Expenditure and Contingent Liabilities

In the 1H of 2013, capital expenditure of the Group was US\$0.2 million (1H 2012: US\$0.2 million), of which the majority was related to the Group's purchase of equipment.

As at 30 June 2013, there was no capital expenditure approved but not contracted for whilst there was a US\$0.2 million (31 December 2012: US\$0.1 million) capital expenditure contracted but not provided for in respect of acquiring certain patents and intellectual properties.

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

BUSINESS PERFORMANCE AND OUTLOOK

Business Performance

During the period under review, the Group's total sales were US\$31.1 million, an increase of approximately 13% from the same period last year, while its total shipments saw a year-on-year increase of around 4% to approximately 47.8 million units. This was mainly attributed to the Group's strategy of changing its product mix to focus on innovative, high value-added smart products which effectively raised the blended average selling price of the Group's products. The sales growth of the Group in the 1H of 2013 has outpaced the expected sales growth of 2.1% of the global semiconductor industry in 2013*.

* World Semiconductor Trade Statistics (WSTS) Organization's Spring 2013 Global Semiconductor Sales Forecast

PRODUCT SHIPMENT (BY BUSINESS UNIT)

Units Shipped (million)	1H 2013	1H 2012	Change	2012
Mobile Display	7.9	[#] 10.6	(26%)	[#] 19.4
Mobile System	5.8	[#] 5.0	17%	[#] 12.6
Advanced Display	28.2	26.6	5%	54.0
Large Display	5.4	3.6	51%	16.2
Green Power	0.5	0.2	219%	0.5
Total	47.8	46.0	4%	102.7

[#] Figures aligned based on the shift of product lines resulting from the operational restructuring at the beginning of 2013

To further reinforce organizational efficiency and enhance core competencies, the Group reorganized and restructured the operation of its core business units at the beginning of 2013. The following provides an overview of the development of individual core business unit in the 1H of 2013 after the operational restructuring.

Mobile Display

The Mobile Display business unit provides LCD driver ICs targeting high-end, value added applications, in particular smartphones and tablets.

During the period under review, the Group's TFT LCD display driver ICs supporting HD smartphone applications scored design wins with key smartphone brands in China and commenced mass production. Its newly developed HD LCD display driver ICs supporting metal oxide TFT technology have secured design-in projects with top-tier customers. The Group has also been collaborating closely with world-leading LCD panel makers to develop driver ICs supporting in-cell touch technology to cater to an increasing demand for higher-performing smartphones.

The unit shipments of Mobile Display products during the period under review were approximately 7.9 million units (1H 2012: 10.6 million units), decreased by around 26% year-on-year, but the actual sales recorded an increase of around 9%. This was mainly attributed to the strategy of shifting the business focus towards smartphone and tablet applications with higher resolutions and higher average selling prices. Most of the new products have only been launched for a short period of time and have not yet contributed significantly to total shipments. The Group is striving to score more design-wins with new products to capture the expanding market.

Mobile System

The Mobile System business unit delivers a wide range of products, including MIPI display interface controller ICs, capacitive touch panel controller ICs, graphic display controller ICs and application processors, all of which target system customers for applications spanning smartphones, tablets, projectors, personal navigation devices, 3D displays, IP cameras, etc.

During the period under review, the total unit shipments of Mobile System products increased strongly by approximately 17% to 5.8 million units (1H 2012: 5.0 million units). This was mainly attributed to the surging demand for the Group's high speed MIPI display interface controller ICs that target high resolution, high speed and low power display of FHD and WQXGA smart devices, in particular tablets. In addition to achieving mass production of the new MIPI solutions launched at the end of 2012, the Group has also scored additional design wins with global brands.

The Group's graphic display controller ICs achieved design-in projects for applications including 3D cameras, multi-view cameras, tablets and car DVRs.

In terms of capacitive touch panel controller ICs, business for the Group's ROM-based products introduced at the end of 2012 has been slow during the period under review. The Group has therefore added significantly skilled resources to enhance the features and performance of the products while strengthening the sales and marketing team, and devising a new positioning strategy and marketing plan for this product line. In addition, a number of new products have been added to the touch panel controller product portfolio to address a variety of applications, including high volume smartphones and tablets ranging from low-end to FHD. The Group hopes that these efforts can boost business growth in the 2H of 2013.

The Group's multimedia processor business continued to benefit from the current clients within the projector market. With their high performance content playback and streaming capabilities, and the proven Internet enabled peer-to-peer server camera control function, these multimedia processors are also ideally suited for IP cameras. During the period under review, the Group has achieved design wins and successfully penetrated into the IP camera market segment.

Advanced Display

The Advanced Display business unit includes OLED Display and New Display product families which focus on module makers of OLED and e-paper, respectively. To better cater to the specific needs of customers, in addition to standard ICs, the Advanced Display business unit also provides custom IC design services, including analog, mixed-signal and high-voltage IC design.

During the period under review, the total unit shipments of Advanced Display products increased by 5% to 28.2 million units (1H 2012: 26.7 million units).

In terms of ESL business, apart from mass production of bistable display driver ICs for direct drive segment/ icon type electrophoretic displays for current customers, the Group has secured additional design wins, and has been working on design-in projects for new applications, including smart cards, healthcare devices and smart watches. In addition, the Group has launched a new AMEPD (AM e-paper) display driver IC during the period, targeting applications that require the display of complex content in high resolution and with low power consumption, for example, QR Codes.

For PMOLED display driver ICs, the Group has been diversifying and expanding its product portfolio. During the period under review, the Group has garnered design wins for smartphone accessories and optical viewfinders of digital cameras; and continued high volume production for applications including smart healthcare devices, portable WIFI routers, enterprise security devices, etc. The Group has also worked on design-in projects for VFD replacement and set-top boxes.

The Group has successfully produced a qHD AMOLED display driver IC for panel development. The Group has also been liaising with potential customers for the development of a new AMOLED display driver IC for HD display, to facilitate the Group's outreach to the rapidly-growing China smartphone market.

Large Display

The Large Display business unit focuses on providing large TFT driver ICs for large LCD display module makers.

During the period under review, the total unit shipments of the Large Display business unit increased by 51% to 5.4 million units year-on-year (1H 2012: 3.6 million units). The shipment growth was not as strong as the Group would have expected due to the need for inventory adjustment in the market. The growth momentum of China's large TFT LCD panels during the period was partially offset by the need to deplete the excess inventory accumulated due to a rapid increase in the production capacity of TFT LCD panel plants in China in 2012. Nevertheless, the Group has developed and submitted two sets of new large TFT driver ICs for customer qualification, and it is expected that the qualification process will be completed in the 2H of 2013.

Green Power

The Green Power business unit focuses on providing energy-saving LED driver ICs and LED power modules for LED lighting and LED backlighting applications.

During the period under review, the Green Power business unit shipped approximately 0.5 million units of LED solutions (1H 2012: 0.2 million units), an increase of 219% year-on-year. The strategy of targeting high quality and high value-added products has attracted more top-tier customers, therefore it has ramped up the unit shipments and brought in more revenue. The Group has also made successful inroads into the Southeast Asian market, in addition to Europe.

The Group has secured a number of design wins during the period under review. It has also been certified by Cree, a world leader in LED technology, as its LED Solution Provider. This is a strong endorsement of the excellent quality, performance and reliability of the products, services and support that the Group offers to its customers.

OUTLOOK

The Group's strategy of focusing on the high-growth, high-volume smart applications has proven effective in enhancing its business growth during the period under review. Riding the trend of more and more innovative products launched into the market and commencing mass production, the Group sees potential for growth. At the same time, we remain vigilant in monitoring changes in the global market, as the global economy slowly recovers and becomes less volatile, yet still faces uncertainties such as the slower-than-expected expansion in the developing economies, and the lingering recession in the Eurozone. The Group's book-to-bill ratio of 0.8 for the period indicates that the product order lead time of the customers has been shortened to cater to possible fluctuations in demand, given the uncertain macroeconomic environment and rapidly changing industry landscape.

Smartphones and Tablets

High performance smartphones and tablets with high resolution displays are expected to continue to be the key growth drivers of the consumer electronics market. In today's Mobile Internet Era, consumers are engaged simultaneously with multiple mobile devices and multiple screens including smartphones, tablets, ultrabooks, PCs, TVs, etc. The Group has been developing more innovative products and technologies which enable low power, high resolution and high speed displays to best capitalize on this market trend.

In terms of TFT LCD display driver ICs, we expect our high resolution TFT LCD display driver IC business to ramp up in the 2H of the year, and our metal oxide TFT LCD display driver ICs which have started pilot shipment to start mass production in the 2H of the year. Our new TFT LCD display driver ICs supporting in-cell touch technology are expected to be launched to score more design wins. We also aim to develop a new AMOLED display driver IC for HD display in 2014.

Our high speed MIPI display interface controller IC business are expected to ramp up in the 2H of the year, and we are also launching new solutions enhanced with image processing functions targeting tablets and ultrabooks.

For capacitive touch panel controller ICs, the Group anticipates that with enhanced product features and performance together with a broadened portfolio covering multiple applications, our touch panel controller business will gain momentum commencing the 2H of 2013, and contribute to the total shipments and sales growth.

Smart TVs

China is leading the growth of global LCD TV shipments and remains our key target market. The Group will continue to develop more new TFT LCD display driver ICs for TVs and computer monitors, in alignment with the business objectives and future business plans of its anchor customer in China, Nanjing CEC Panda LCD Technology Co., Ltd.

Smart Devices

The Group maintains a positive view about the growth potential of bistable displays. Apart from striving to further ramp up its business for ESL application, in view of the growing market needs to display more complex information beyond numeric data in high resolution with low power consumption, the Group plans to boost its AMEPD businesses to capture the rising demand and contribute to overall sales. In addition, the Group is exploring other potential applications of bistable displays, such as inventory/ warehouse management, smart cards, etc.

The Group has been identifying opportunities to diversify and extend further the applications of PMOLED display ICs to drive business growth. Healthcare products represent a key application segment with strong growth potential, in addition to products which feature high brightness and energy saving functions, such as set-top boxes and smartphone accessories.

In terms of LED lighting, the Group will continue to focus on high quality, high performance products targeting top-tier customers. Apart from ramping up production of the new products with design wins secured, the Group is also working on the development of modules for smart LED lighting solutions which integrate wireless control with multi-color features. In addition, the Group is working on the development of OLED lighting solutions.

The Group also will strive to achieve more design wins for its graphic display controller ICs for applications such as 3D cameras, multi-view cameras and baby monitors.

RESEARCH AND DEVELOPMENT

As part of the core strategy of building our strengths in the target product display applications, and paving the way for future growth, the Group has focused on developing related new technologies and also enhancing the features of existing products. During the period under review, the Group spent approximately US\$6.8 million on R&D, representing about 54% of the total expenses and 22% of sales.

Many intellectual properties were developed or under development during the past six months aimed at low power, high resolution smart device applications. These included mobile display drivers for oxide panels and in-cell touch, high speed serial interfaces with ultra power consumption for up to WQXGA resolution, intelligent touch algorithms to enable fast and accurate response for both double and single layer multi-touch, smart analog front end with optimal touch sensitivity, innovative architecture in OLED lighting drivers for major intelligent lighting control systems, novel high voltage discharge techniques for improving panel reliability and image sticking, improved efficiency buck/boost converters, high accuracy temperature sensors, etc.

During the period under review, the Group has filed several patent applications with patent offices in different regions, including the USA, China, Taiwan, Korea and Europe. The Group has been successfully granted three patents on touch panel technology, color management and LED lighting control.

As at 30 June 2013, the Group had an R&D workforce of 186, representing approximately 60% of our total employees (excluding those of a manufacturing subsidiary in China). The Group's R&D teams possess domain expertise in various areas, spanning from high-voltage mixed-signal design, high speed serial interface design, analog power management, and high speed low power SoC design, as well as algorithm design to system architecture design. This wide array of critical knowhow enables fast fulfillment of customers' sophisticated requirements. The Group has adopted wafer technologies as advanced as 65nm CMOS logic and 80nm embedded high voltage on 12" wafer, and is migrating to the next technology node of 55nm high voltage process, to address the challenge of supporting increasingly higher resolution and lower power consumption in mobile consumer end products.

HUMAN RESOURCES

As at 30 June 2013, the Group had a total workforce of 377 employees, of whom about 45% were based at the Hong Kong headquarters with the rest located in China, Japan, Singapore, Taiwan and the USA.

As a technology company relying 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 ensure they enjoy and remain fulfilled working with the Group and contribute their best efforts to the Group's success.

New product introduction bonuses and first sales incentives, which aim at driving the success of new product development and new business, remained in place and were paid to certain employees during the 1H of 2013.

CORPORATE GOVERNANCE AND SUPPLEMENTARY INFORMATION

Corporate Governance Code

The Company had complied with all applicable code provisions of the Corporate Governance Code under Appendix 14 of the Listing Rules throughout the six months ended 30 June 2013.

Pursuant to the Code Provision A.6.7, Independent Non-executive Directors and Non-executive Directors should attend general meetings. One Independent Non-executive Director and three Non-executive Directors of the Company were unable to attend the annual general meeting of the Company held on 28 May 2013 due to their business engagements. All other Independent Non-executive Directors and Non-executive Directors were present and available to answer any questions from shareholders of the Company.

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. Specific enquiry has been made to all Directors, and all Directors have confirmed that they have been in compliance with such guidelines during the six months ended 30 June 2013.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the period under review.

Review of Condensed Consolidated Interim Financial Information

The Audit Committee is composed of three Independent Non-executive Directors and one Non-executive Director. The unaudited Condensed Consolidated Interim Financial Information has been reviewed by the Audit Committee of the Company alongside the internal audit team.

The unaudited condensed consolidated Interim Financial Information has been reviewed by the Company's independent auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report is included in the Interim Report of the Group.

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

All the interim financial and other related information of the Company required by the Listing Rules has been published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.solomon-systech.com) on 22 August 2013.

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

Hong Kong, 22 August 2013

As at the date of this announcement, the Board comprises: (a) Executive Directors - Dr. LEUNG Kwong Wai (Managing Director) and Mr. LAI Woon Ching; (b) Non-executive Directors - Dr. LAM Pak Lee (Mr. SHEU Wei Fu as his alternate), Mr. LI Xiaochun, Mr. LAI Weide and Mr. ZHAO Guiwu; and (c) Independent Non-executive Directors - Mr. SUN, Patrick (Chairman), Mr. CHOY Kwok Hung, Patrick, Mr. WONG Yuet Leung, Frankie and Mr. YIU Tin Chong, Joseph.

Definitions and Glossary

AMEPD	Active Matrix Electrophoretic Display
AMOLED	Active Matrix Organic Light Emitting Diode
ASP	Average Selling Price
Board	Board of Directors
China	Mainland China
Code Provision	Code Provisions in the Corporate Governance Code
Company	Solomon Systech (International) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
Director(s)	The Director(s) of the Company
DVR	Digital Video Recorder
ESL	Electronic Shelf Label
FHD	Full High Definition, a display resolution of 1920x1080 pixels
FVTPL	Financial Assets/ Liabilities at Fair Value Through Profit or Loss
Group	The Company and its Subsidiaries
HD	High Definition, a display resolution of 1280x720 pixels
Hong Kong/ HK	Hong Kong Special Administrative Region
HKAS	Hong Kong Accounting Standards
HKFRS	Hong Kong Financial Reporting Standards, or collectively for HKAS and Hong Kong Financial Reporting Standards
IC	Integrated Circuit
IP Camera	Internet Protocol Camera
LCD	Liquid Crystal Display
LED	Light Emitting Diode
Listing Rules	The Rules Governing the Listing of Securities in the Stock Exchange
MIPI	Mobile Industry Processor Interface
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
OLED	Organic Light Emitting Diode
PMOLED	Passive Matrix Organic Light Emitting Diode
qHD	Quarter High Definition, a display resolution of 960x540 pixels
QR Code	Quick Response Code
ROM	Read Only Memory
R&D	Design, development and engineering
S&D	Selling and Distribution
SoC	System-on-Chip
TFT	Thin Film Transistor
3D	Three-dimensional
TV	Television
the Stock Exchange	The Stock Exchange of Hong Kong Limited
USA	United States of America
US\$/ USD	US dollars
VFD	Vacuum Fluorescent Display
WIFI	Wireless Fidelity (IEEE 802.11b wireless networking)
WQXGA	Wide Quad Extended Graphics Array, a display resolution of 2560x1600 pixels