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

2014 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Sales decreased by around 12% to US\$27.3 million
- Gross profit reduced by about 27% to US\$9.3 million
- Gross margin was 34.3% (1H 2013: 41.0%), down 6.7 percentage points because of a provision of US\$2.0 million on slow moving inventory
- Net loss was US\$1.5 million (1H 2013 net profit: US\$0.8 million)
- Loss per share was 0.06 US cent (0.46 HK cent)
- Book-to-bill ratio was 1.1
- The Board of Directors resolved not to declare an interim dividend for the six months ended 30 June 2014

INTERIM RESULTS

The Directors of Solomon Systech (International) Limited are pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2014 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2014

	Note	Unaudited Six months ended 30 June	
		2014 US\$'000	2013 US\$'000
Sales	4	27,250	31,142
Cost of sales	5	(17,908)	(18,363)
Gross profit		9,342	12,779
Research and development costs	5	(7,501)	(6,755)
Selling and distribution expenses	5	(1,579)	(1,645)
Administrative expenses	5	(3,857)	(4,061)
Other income		—	448
Finance income/ (loss) – net	6	(3,595) 2,077	766 (572)
Share of results of associated companies		(1,518) 77	194 31
Profit/ (loss) before income tax		(1,441)	225
Income tax credit/ (expenses)	7	(24)	597
Profit/ (loss) attributable to the equity holders of the Company		(1,465)	822
Earnings/ (loss) per share attributable to the equity holders of the Company: (expressed in US cent per share)	8		
– Basic		(0.06)	0.03
– Diluted		(0.06)	0.03
Dividend	9	—	—

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Unaudited Six months ended 30 June	
	2014 US\$'000	2013 US\$'000
Profit/ (loss) for the period	(1,465)	822
Other comprehensive loss for the period:		
Item that may be reclassified to profit or loss		
– Currency translation differences	(60)	(49)
Total comprehensive income/ (loss) attributable to the equity holders of the Company	(1,525)	773

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2014

	Note	Unaudited 30 June 2014 US\$'000	Audited 31 December 2013 US\$'000
ASSETS			
Non-current assets			
Intangible assets		95	163
Property, plant and equipment		2,857	3,078
Investments in associated companies		786	709
Available-for-sale financial assets		2,206	2,206
Bank deposits		9,836	9,836
		15,780	15,992
Current assets			
Inventories		6,759	7,849
Trade and other receivables	10	12,338	10,875
Financial assets at fair value through profit or loss		69,660	71,087
Pledged bank deposits		130	130
Short-term fixed deposits		2,516	10,846
Cash and cash equivalents		21,870	12,181
		113,273	112,968
Total assets		129,053	128,960
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		31,730	31,720
Reserves			
Own shares held		(89)	(89)
Others		84,807	86,204
Total equity		116,448	117,835
LIABILITIES			
Non-current liabilities			
Bank loan		343	402
		343	402
Current liabilities			
Obligations under finance leases		1	2
Trade and other payables	11	11,239	9,684
Bank loan		92	95
Deferred income		388	400
Income tax		542	542
		12,262	10,723
Total liabilities		12,605	11,125
Total equity and liabilities		129,053	128,960
Net current assets		101,011	102,245
Total assets less current liabilities		116,791	118,237

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 integrated circuits products and system solutions that enable a wide range of display applications for smartphones, smart TVs and other smart devices including consumer electronics products, portable devices, industrial appliances and green energy applications.

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, Uglan 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 18 August 2014.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2014 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 2013, 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 2013, 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) Amendments to standards and interpretation to existing standard effective in 2014

The Group has adopted the following amendments to standards and interpretation to existing standard that have been issued and effective for the Group's financial year commencing on 1 January 2014:

• HKAS 32 (Amendment)	Financial Instruments Presentation: Assets and Liabilities Offsetting
• HKAS 36 (Amendment)	Impairment of Assets: Recoverable Amount Disclosures
• HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement (novation of derivatives)
• HKFRS 10, 12 and HKAS 27 (Amendment)	Consolidation for Investment Entities
• HK(IFRIC) – Interpretation 21	Levies

The adoption of the above amendments to standards and interpretation to existing standard 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, amendments to standards and interpretations to existing standards 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 standards and amendments to standards that are issued but effective for periods commencing after 1 January 2014

The following new and amendments to standards have been issued, but not effective for the financial year beginning 1 January 2014 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKAS 19 (Amendment)	Employee Benefits: Defined Benefit Plans	1 July 2014
Annual Improvements 2012 and 2013	Improvements to HKASs and HKFRSs for the cycles 2010 to 2012 and 2011 to 2013	1 July 2014
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
HKFRS 15	Revenue from Contracts with Customers	1 January 2017

The Group has already commenced an assessment of the impact of the above new standards and amendments to standards but is not yet in a position to state whether these new standards 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 and other smart devices including consumer electronics products, portable devices, industrial appliances and green energy applications.

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\$27,250,000 and US\$31,142,000 for the six months ended 30 June 2014 and 2013 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 Europe, China and Hong Kong.

	Unaudited Six months ended 30 June	
	2014 US\$'000	2013 US\$'000
Europe	6,274	4,540
China	5,239	7,904
Hong Kong	4,539	8,216
Taiwan	4,010	4,669
Korea	3,281	2,102
South East Asia	1,821	2,221
Japan	1,207	1,168
USA	564	244
Others	315	78
	27,250	31,142

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

(b) Total assets

	Unaudited 30 June 2014 US\$'000	Audited 31 December 2013 US\$'000
Hong Kong	103,754	105,046
China	19,731	18,520
Taiwan	5,039	4,857
South East Asia	440	484
Others	89	53
	129,053	128,960

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	
	2014 US\$'000	2013 US\$'000
Hong Kong	126	39
China	120	87
Taiwan	22	36
	268	162

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	
	2014 US\$'000	2013 US\$'000
Cost of inventories sold	15,330	18,104
Product engineering costs	1,131	978
Provision for/(write-back of provision for) obsolete or slow moving inventories	2,023	(251)
Amortization of the intangible assets	17	—
Depreciation of owned property, plant and equipment	429	802
Depreciation of leased property, plant and equipment	1	1
Operating leases for land and buildings	519	519
Employee benefit expenses (including Directors' emoluments):		
– Equity compensation	116	54
– Non-equity compensation	9,243	8,502
Net exchange (gain)/ loss	(229)	44

6. Finance income/ loss – net

	Unaudited Six months ended 30 June	
	2014 US\$'000	2013 US\$'000
Gain on disposal of FVTPL	109	189
Interest income	996	1,283
Dividend income	503	188
Net unrealizable gain or loss from FVTPL:		
– Fair value gain of financial assets	1,386	91
– Fair value loss of financial assets	(918)	(2,211)
– Fair value loss of financial liabilities	—	(110)
Interest expense of bank loan	(4)	(5)
Others	5	3
	2,077	(572)

7. Income tax

Hong Kong income tax has been provided at the rate of 16.5% (2013: 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 2014 and 2013.

	Unaudited Six months ended 30 June	
	2014 US\$'000	2013 US\$'000
Current income tax :		
– Hong Kong	—	—
– Overseas	24	1
Reversal of income tax provision	—	(548)
Reversal of deferred income tax provision	—	(50)
Income tax (credit)/ expenses	24	(597)

8. Earnings/ loss per share

Basic earnings/ loss per share

The basic earnings/ loss per share is calculated based on the Group's profit/ loss for the period attributable to the equity holders of the Company and the weighted average number of 2,459,623,162 (1H 2013: 2,455,183,693) ordinary shares in issue excluding own shares held during the periods.

The Group's loss for the period attributable to the equity holders of the Company was US\$1,465,000 (1H 2013 profit: US\$822,000).

Diluted earnings/ loss per share

The diluted earnings/ loss per share is calculated based on the Group's profit/ 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	
	2014	2013
Weighted average number of ordinary shares in issue	2,459,623,162	2,455,183,693
Allocated own shares held under Share Award Scheme	—	2,679,889
Conversion of all dilutive share options outstanding	—	3,571,857
Adjusted weighted average number of ordinary shares for diluted earnings/ loss per share calculation	2,459,623,162	2,461,435,439

As at 30 June 2014, there were 16,800,000 share options outstanding and 3,082,000 allocated own shares held which could potentially have a dilutive impact but were anti-dilutive for the period then ended. Hence, there was no dilutive effect on the calculation of the diluted loss per share for the six months ended 30 June 2014.

9. Dividend

No dividend related to the year ended 31 December 2013 was declared or paid during the period. In addition, the Board resolved not to declare an interim dividend for the six months ended 30 June 2014.

10. Trade and other receivables

	Unaudited 30 June 2014 US\$'000	Audited 31 December 2013 US\$'000
Trade receivables	8,072	7,007
Trade receivables from a related party	1,645	1,271
Total trade receivables	9,717	8,278
Deposits, prepayments and other receivables	2,557	2,436
Prepayment to a related party	64	161
	12,338	10,875

As at 30 June 2014, 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 2014 US\$'000	Audited 31 December 2013 US\$'000
Current	7,820	6,203
1 - 30 days	1,540	1,563
31 - 60 days	271	369
61 - 90 days	86	93
Over 90 days	—	50
	1,897	2,075
	9,717	8,278

As at 30 June 2014, trade receivables of US\$1,897,000 (31 December 2013: US\$2,075,000) were considered past due if measured strictly against the credit terms offered. All the overdue sum was not impaired since most of the overdue sum has been settled after the balance sheet date.

As at 30 June 2014 and 31 December 2013, no trade receivables were impaired and provided for.

11. Trade and other payables

	Unaudited 30 June 2014 US\$'000	Audited 31 December 2013 US\$'000
Trade payables	7,679	5,694
Trade payables to a related party	33	—
Total trade payables	7,712	5,694
Accrued expenses and other payables	3,527	3,990
	11,239	9,684

As at 30 June 2014, the ageing analysis of trade payables based on overdue days is as follows:

	Unaudited 30 June 2014 US\$'000	Audited 31 December 2013 US\$'000
Current	7,078	4,091
1 - 30 days	400	1,375
31 - 60 days	143	135
61 - 90 days	—	28
Over 90 days	91	65
	7,712	5,694

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

During the period under review, the Group's total sales were US\$27.3 million, representing a reduction of approximately 12% year-on-year and a net loss of US\$1.5 million was incurred.

Sales and Gross Profit

For the six months ended 30 June 2014, total sales of the Group were US\$27.3 million (1H 2013: US\$31.1 million) while its total shipments saw a year-on-year decrease of around 7% to approximately 44.3 million units (1H 2013: 47.8 million units). The reduction in both sales and shipment units were mainly attributable to the volatile demand fluctuations of some of the Group's key customers and market segments, together with the challenging economic and market conditions in the first quarter of the year. Nonetheless, the Group has been extending the application portfolio of its products to increase revenue sources, and also strengthening further its design engineering and marketing capabilities to enhance the quality and speed of new product development. Book to bill ratio was 1.1 (1H 2013: 0.8), implying sales backlog would be carried over to the rest of 2014.

Gross profit of the Group was US\$9.3 million (1H 2013: US\$12.8 million). Gross margin was 34.3% (1H 2013: 41.0%), down 6.7 percentage points. Excluding the provision for slow moving inventory of US\$2 million during the period in 2014, the gross margin was about 41.7% which was at a comparable level to 1H 2013.

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\$12.9 million (1H 2013: US\$12.5 million).

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\$7.5 million (1H 2013: US\$6.8 million), up US\$0.7 million.

S&D expenses were kept at US\$1.6 million (1H 2013: US\$1.6 million). S&D expenses to sales ratio was 5.8% (1H 2013: 5.3%).

Administrative expenses were US\$3.9 million, decreased by US\$0.2 million compared with US\$4.1 million in 1H 2013.

Finance Income/ Loss - Net

During the period under review, the Group recorded an interest income of US\$1.0 million and dividends of US\$0.5 million totaling US\$1.5 million (1H 2013: US\$1.5 million).

Pursuant to mark-to-market prices as at 30 June 2014, a net unrealized gain of US\$0.5 million (1H 2013 net unrealized loss: US\$2.2 million) was recorded from the investment in the FVTPL portfolio at balance sheet date.

As a result, the Group recorded a net gain of US\$2.1 million (1H 2013 net loss: US\$0.6 million) from treasury investment.

Net Profit and Loss

The loss attributable to the equity holders of the Company for the six months ended 30 June 2014 was US\$1.5 million (1H 2013 profit: US\$0.8 million).

The Board resolved not to declare an interim dividend for the six months ended 30 June 2014.

Liquidity and Financial Resources

Total cash and cash equivalents and bank deposits (both current and non-current) of the Group amounted to US\$34.2 million as at 30 June 2014, compared to US\$32.9 million as at 31 December 2013.

Net cash used in operating activities during the period was US\$1.8 million (1H 2013: US\$2.5 million). The cash outflow in operating activities was mainly due to the net loss of US\$3.6 million before finance income and the slightly improved working capital, which comprised net of receivables, inventories and payables.

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 2014, the Group had no major borrowing other than the US\$0.4 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 2014, capital expenditure of the Group was US\$0.3 million (1H 2013: US\$0.2 million), of which the majority was related to the Group's purchase of equipment.

As at 30 June 2014 and 31 December 2013, there was no material capital expenditure approved but not contracted for nor contracted but not provided for.

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\$27.3 million, a decrease of approximately 12% from the same period last year, while its total shipments saw a year-on-year decrease of around 7% to approximately 44.3 million units.

The decrease of the Group's unit shipments and sales in the period under review was mainly attributed to the volatile demand fluctuations among some of its key customers and market segments, as well as the challenging economic and market conditions in the first quarter of the year which adversely affected the business performance of industry players.

The unit shipments of the Group in the first quarter of 2014 dropped about 20% year-on-year, following the general economic slowdown. In the second quarter, the global economy started to pick up, and the unit shipments of the Group also increased around 6% year-on-year.

It is noteworthy that the book-to-bill ratio for 1H 2014 was 1.1 (1H 2013: 0.8), indicating that demand outpaced supply. In addition, the Group has been extending its product application portfolio to expand its revenue sources, and also further strengthening its design engineering and marketing capabilities to enhance the quality and speed of new product development to push business growth.

PRODUCT SHIPMENT (BY BUSINESS UNIT)

Units Shipped (million)	1H 2014	1H 2013	Change	2013
Mobile Display	6.9	7.9	(13%)	14.2
Mobile System	3.2	5.8	(45%)	10.5
Advanced Display	28.9	*28.7	1%	57.5
Large Display	5.3	5.4	(2%)	8.3
Total	44.3	47.8	(7%)	90.5

* Figure aligned based on the regrouping of product lines resulting from operational restructuring

Mobile Display

The Mobile Display business unit provides LCD display driver ICs targeting high volume, high value-added applications, in particular smartphones, industrial and other portable applications.

During the period under review, the Group has made good progress in the development of TFT LCD display driver ICs targeting FHD resolution smartphones. These display driver ICs feature high flexibility to support FHD resolution panels from different panel manufacturers, thereby extending product reach to a wider customer base. The Group has also been collaborating with top-tier customers to develop display driver ICs for in-cell touch panels.

In addition to smartphones, the Group has also scored design-wins for other popular applications, including automotive, printers, GPS, etc., strengthening the product portfolio of the business unit.

The unit shipment of Mobile Display products during the period under review were approximately 6.9 million units (1H 2013: 7.9 million units), declining by around 13% year-on-year. This was mainly attributed to a change in the business plans of a key customer causing a reduction in the shipment of one of the key products. The Group is planning to launch more new products and new technologies to capture the expanding market, and to also extend further the targeted product applications to create more revenue sources.

Mobile System

The Mobile System business unit delivers a wide range of products, including MIPI high speed display interface controller ICs, capacitive touch panel controller ICs, graphic display controller ICs and multimedia processors, targeting system customers for applications spanning smartphones, tablets, projectors, automotive DVRs, IP cameras, etc.

During the period under review, the Group's capacitive touch panel controller IC business has been slow. Facing increasingly intense competition and price erosion, the Group has made investments to further enhance product features and performance, and bolster the capability of its design engineering and marketing teams. The Group believes that these efforts can boost business growth and most importantly, speed up the development and launch of new technologies and higher value-added solutions. These solutions include RPC Full-ITO sensor design, noise robust single layer multi-touch techniques, fast wake-up gesture features, on-cell touch solutions and dual-touch applications, and are intended to set itself apart from competition and capture the growing market.

In addition to smartphones, the Group has started to penetrate into other portable applications, such as smart watches and other wearable devices, in view of their strong potential. During the period under review, the Group's MIPI high speed display interface controller ICs have scored design-wins for a number of smart watches, laying the foundation for future growth. The Group has also continued to develop new display interface controller ICs, including one for extremely high resolution display of WQXGA panels. This innovative solution is currently undergoing evaluation. In addition, the Group has identified other industrial applications, one of which utilizes MIPI high speed display interface controller ICs for high resolution display panel test equipment.

In terms of graphic controllers, the Group has achieved design-wins for applications including IP cameras, car DVRs, and also smartphones and tablets for educational use targeting developing countries.

The total unit shipment of the Mobile System products decreased by approximately 45% to 3.2 million units (1H 2013: 5.8 million units) during the period, attributed to the slow development of the capacitive touch panel controller business and also the reduction in market demand for MIPI high speed display interface controller ICs for HD/FHD display. Nonetheless, with a contribution from some new applications of MIPI high speed display interface controller ICs with a high average selling price, the decrease in the total revenue of the Mobile System unit was mitigated to around 14% year-on-year.

Advanced Display

The Advanced Display business unit includes OLED-Display and Lighting products, as well Bistable Display product families which focus on module makers of OLEDs and e-paper, respectively. In addition to standard ICs, the Advanced Display business unit also provides custom IC design services to meet the specific needs of customers.

During the period under review, the total unit shipment of Advanced Display products increased slightly by 1% to 28.9 million units (1H 2013: 28.7 million units). The rise was mainly attributed to an increase in demand for our AMEPD (AM e-paper) driver ICs for ESL displays.

The Group's AMEPD solutions won design-in projects for new ESL panel sizes, while its segment type bistable display driver ICs garnered design-wins for healthcare products and smart cards, further expanding the application portfolio of this new technology.

For PMOLED display driver ICs, the Group has made good inroads into the wearable health and fitness devices market by scoring design-wins with world renowned brands. It has also captured design-wins for other applications, such as gaming devices, industrial applications, water heaters and home audio systems; as well as design-in projects for set-top boxes.

Subsequent to the launch of the AMOLED display driver IC for the first qHD panel in China, the Group has been collaborating with customers on the development of HD resolution AMOLED display driver ICs.

The Group has also successfully produced an engineering sample IC for OLED lighting.

Large Display

The Large Display business unit focuses on providing large panel TFT display driver ICs to address large display applications.

During the period under review, the total unit shipment of the Large Display business unit decreased slightly by approximately 2% to 5.3 million units year-on-year (1H 2013: 5.4 million units), but the revenue increased by around 7%, attributed to our shift towards higher value-added products. The unit shipment in the first quarter of the year was still under the impact of an inventory adjustment in the market. However, starting from the second quarter, the demand for TVs and monitors has been growing. The growth momentum was driven partly by the rise in demand for our customer's smart TV with advanced functions, and partly by the growth of the TV market boosted by the FIFA World Cup 2014.

Customer qualification for the Group's two sets of new large TFT driver ICs has been completed. The TFT driver IC for 18.5" HD monitors has just started mass production, while that for 21.5" FHD monitors is expected to start early in the second half of the year.

OUTLOOK

The Group will continue to keep a close watch on the market and focus on high-growth, high-volume smart applications. In addition to smartphones which are expected to continue to be a key growth driver, wearable electronics devices, in particular smart watches and health & fitness devices, will likely become "the next big thing" in the consumer electronics market. ESLs using e-paper technology are expected to sustain growth momentum. The Group will continue its efforts to develop more innovative products and expand our footprint in these target application segments to sustain growth.

Smartphones and Tablets

In the second half of the year, the Group targets to complete qualification and start pilot production and shipment of its new TFT LCD display driver ICs for FHD resolution panels. Mass production of a number of new capacitive touch panel controller ICs will also begin.

In view of the growing popularity of integrating display driver ICs and touch ICs using On-Cell and In-Cell technologies, the Group has planned to start pilot production of its In-Cell touch display driver ICs by the end of 2014. It has also been working on the development of On-Cell touch driver ICs. The Group expects more design-wins can be scored with these new products.

The Group also targets to complete the evaluation of its AMOLED display driver IC for high-definition resolution display for smartphones in 2014.

In addition, the Group expects that its new MIPI high speed display interface controller IC for large-sized displays with WQXGA resolution will complete qualification in the second half of the year, presenting another high value-added application for this product category.

Smart TVs and Monitors

The growth momentum of TV and monitors started in the second quarter is expected to continue in the third quarter of the year. The Group will continue to boost business growth, increasing further its share of the LCD business of its major customer.

Other Smart Devices

The Group will strive to continue to score more design-wins to boost its business in smart watches and health & fitness devices for its array of high performance display solutions, including PMOLED display driver ICs, bistable display driver ICs and LCD display driver ICs which provide an effective interface for any basebands/MCU/BLE in the market; MIPI high speed display interface controller ICs as interface bridges; as well as capacitive touch panel controller ICs which offer multi-touch experience for users.

The Group will also continue to penetrate further into the ESL business segment. The global ESL market has been witnessing increasing demand by retail stores.

The Group has also been identifying opportunities to extend further the applications of PMOLED display ICs to those featuring higher brightness and DPI, such as set-top boxes and smartphone accessories.

In terms of OLED lighting, upon the completion of the testing and evaluation of its first engineering sample IC, the Group will enter into the second phase of development to produce an IC with additional features, aiming for mass production to capture early mover advantage, as OLED lighting panels are expected to be launched into the market in 2015.

RESEARCH AND DEVELOPMENT

As part of the core strategy of building our strengths in the priority target of 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 has spent approximately US\$7.5 million on R&D, representing about 58% of total expenses and 28% of sales.

Intellectual property for many solutions has been developed or under development during the past six months aimed at low power, high resolution smart device applications. These included FHD mobile display driver ICs, In-Cell touch mobile display driver ICs and controller ICs for smartphones, HD AMOLED driver ICs for smartphones and tablets, high brightness PMOLED driver ICs, bistable segment driver ICs, ultra low-power AMEPD driver ICs, OLED lighting driver ICs and P-CAP touch controller ICs for smartphones, an eDP-to-MIPI bridge chip for tablet PCs, etc.

During the period under review, the Group has filed several patent applications in different regions. The Group has been successfully granted two patents for its driving method for display panels.

As at 30 June 2014, the Group had an R&D workforce of 190, representing approximately 60% of our entire staff (excluding those of a manufacturing subsidiary in China). The Group's R&D teams possess domain expertise in various areas, spanning from design of high-speed serial master bridges, projected capacitance multi-touch controller ICs and OLED lighting driver ICs, to display driver ICs for various panel technologies such as amorphous silicon TFT, metal oxide TFT, LTPS, AMOLED, PMOLED, and AMEPD. This wide array of critical knowhow enables fast fulfillment of customers' sophisticated requirements. The Group has adopted wafer technologies as advanced as 55nm high voltage process on 12" wafer to address the challenge of increasingly higher resolution and lower power consumption in mobile consumer end products.

HUMAN RESOURCES

As at 30 June 2014, the Group had a total workforce of 379, of whom about 47% 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.

In addition to patent awards to encourage patent filing, 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 2014.

CORPORATE GOVERNANCE AND SUPPLEMENTARY INFORMATION

Corporate Governance Code

The Board and the management of the Group are committed to achieving and maintaining high standards of corporate governance, which the Group considers as critical in safeguarding the integrity of its business operations and maintaining investors' trust in the Company.

The Company has complied with almost all the applicable code provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2014.

Pursuant to the Code Provision A.6.7, Independent Non-executive Directors and Non-executive Directors should attend general meetings. Three Non-executive Directors of the Company were unable to attend the annual general meeting of the Company held on 27 May 2014 due to their business engagements. All the four Independent Non-executive Directors and other 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 the Model Code contained 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 2014.

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 will be included in the Interim Report of the Company.

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 18 August 2014.

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

Hong Kong, 18 August 2014

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 - 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 and Mr. YIU Tin Chong, Joseph.

Definitions and Glossary

AMEPD	Active Matrix Electrophoretic Display
AMOLED	Active Matrix Organic Light Emitting Diode
Board	Board of Directors
China	Mainland China
Code Provision(s)	Code provision(s) in the Corporate Governance Code contained in Appendix 14 of the Listing Rules
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 1920×1080 pixels
FVTPL	Financial Assets/ Liabilities at Fair Value Through Profit or Loss
GPS	Global Positioning System
Group	The Company and its subsidiaries
HD	High Definition, a display resolution of 1280×720 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
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
MIPI	Mobile Industry Processor Interface
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules
OLED	Organic Light Emitting Diode
PMOLED	Passive Matrix Organic Light Emitting Diode
qHD	Quarter High Definition, a display resolution of 960×540 pixels
RPC	Reduced Pin Count
R&D	Design, development and engineering
S&D	Selling and Distribution
SoC	System-on-Chip
TFT	Thin Film Transistor
Stock Exchange	The Stock Exchange of Hong Kong Limited
USA	United States of America
US\$/ USD	US dollars, the lawful currency of the USA
WQXGA	Wide Quad Extended Graphics Array, a display resolution of 2560×1600 pixels