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

2010 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

- Sales grew by 42% to US$38.0 million
- Gross profit grew by 51% to US$11.2 million
- Loss before income tax was US$3.9 million (the loss in respect of the principal business was US$2.9 million, reduced by 49%)
- Loss attributable to the equity holders of the Company was US$3.9 million
- Basic loss per share was 0.16 US cent (1.24 HK cents)
- Book to bill ratio for the period ended 30 June 2010 was 1.6
- No interim dividend was declared by the Board

INTERIM RESULTS

The directors (the "Directors") of Solomon Systech (International) Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together the "Group") for the period ended 30 June 2010 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2010

		Unaudited Six months ended 30 June	
	Note	**2010**	2009
		US$'000	US$'000
Sales	5	**38,018**	26,663
Cost of sales		**(26,799)**	(19,218)
Gross profit		**11,219**	7,445
Other income		**196**	852
Other gain/(loss) – net	6	**(946)**	1,415
Research and development costs		**(7,259)**	(6,866)
Selling and distribution expenses		**(1,932)**	(1,582)
Administrative expenses		**(4,905)**	(4,743)
Other operating expenses		**(680)**	(1,105)
Operating loss	7	**(4,307)**	(4,584)
Interest income		**633**	1,388
Finance costs		**(7)**	—
Share of results of associated companies		**(260)**	(390)
Loss before income tax		**(3,941)**	(3,586)
Income tax (expense)/credit	8	**(2)**	1,256
Loss for the period		**(3,943)**	(2,330)
Attributable to:			
– Equity holders of the Company		**(3,943)**	(2,331)
– Non-controlling interests		**—**	1
		(3,943)	(2,330)
Loss per share for loss attributable to the equity holders of the Company: (expressed in US cent per share)	9		
– Basic		**(0.16)**	(0.10)
– Diluted		**(0.16)**	(0.10)
Dividend		**—**	—

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2010

	Unaudited Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Loss for the period	**(3,943)**	(2,330)
Other comprehensive income for the period:		
– Currency translation differences	**17**	44
Total comprehensive loss for the period	**(3,926)**	(2,286)
Attributable to:		
– Equity holders of the Company	**(3,926)**	(2,287)
– Non-controlling interests	**—**	1
	(3,926)	(2,286)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
As at 30 June 2010

	Note	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment		8,157	6,621
Investments in associated companies		1,627	4,493
Available-for-sale financial assets		4,852	2,346
		14,636	13,460
Current assets			
Inventories		12,443	10,302
Trade and other receivables	11	17,830	13,456
Financial assets at fair value through profit or loss		24,144	20,035
Other financial assets		—	2,713
Pledged bank deposits		130	130
Short-term fixed deposits		36,413	45,318
Cash and cash equivalents		41,875	44,798
		132,835	136,752
Total assets		147,471	150,212
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		31,619	31,542
Reserves			
Proposed dividend	10	—	3,158
Own shares held		(279)	(858)
Others		97,741	101,989
Total equity		129,081	135,831
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		6	7
Other payables	12	—	133
Bank loan		665	708
Deferred income tax liabilities		50	50
		721	898
Current liabilities			
Trade and other payables	12	16,580	12,391
Bank loan		86	86
Current income tax liabilities		1,000	1,000
Obligations under finance leases		3	6
		17,669	13,483
Total liabilities		18,390	14,381
Total equity and liabilities		147,471	150,212
Net current assets		115,166	123,269
Total assets less current liabilities		129,802	136,729

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 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 condensed consolidated interim financial information are presented in US dollars unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors ("the Board") on 18 August 2010.

This condensed consolidated interim financial information has not been audited.

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 effective as the Group has had no significant influence over it since then.

On 19 March 2010, the Group set up a new subsidiary in Beijing, Mainland China ("China") with registered capital of US$8 million. US$1.2 million was injected to the entity in June 2010. The balance of registered capital will 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 as at 30 June 2010. The completion of the Sale and Purchase Agreement is subject to the purchaser obtaining the relevant governmental/regulatory approval in Taiwan.

3. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2010 ("Interim Financial Information") of the Group has been prepared in accordance with Hong Kong Accounting Standard ("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 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

4. 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 2009, 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 and amended standards and interpretations to existing standards effective in 2010

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

• HKFRS 1 (Revised)	First-time adoption of HKFRSs
• HKFRS 3 (Revised)	Business combinations
• HKAS 27 (Revised)	Consolidated and separate financial statements
• HKAS 39 (Amendment)	Financial instruments: recognition and measurement – eligible hedged items
• HK(IFRIC) - Int 17	Distributions of non-cash assets to owners
• HK(IFRIC) - Int 18	Transfers of assets from customers
• HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
• 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")
• 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 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.

HKFRS 27 (Revised) - Consolidated and separate financial statements

The amendment 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.

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

The following new 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:

• HKAS 24 (Revised)	Related party disclosures
• HKAS 32 (Amendment)	Classification of rights issue
• HKFRS 9	Financial instruments
• Amendment to HKFRS 1	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
• HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments
• Amendment to HK(IFRIC) – Int 14	Prepayments of a minimum funding requirement
• 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 and amended standards and interpretations to existing standards but is not yet in a position to state whether these new and amended standards and interpretations to existing standards would have a significant impact to its results of operations and financial position.

5. Segment information

During the period, 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 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 Directors led by the Group CEO (Managing Director). The Executive Directors 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$38,018,000 and US$26,663,000 for the periods ended 30 June 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 Hong Kong, Korea, Taiwan and China.

Sales

	Unaudited Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Hong Kong	**10,677**	10,725
Korea	**10,094**	1,846
Taiwan	**7,346**	4,365
China	**4,166**	7,027
Japan	**1,711**	484
South East Asia	**928**	822
United States of America ("USA")	**622**	91
Others	**2,474**	1,303
	38,018	26,663

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

Total assets

	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000
Hong Kong	**123,466**	130,686
China	**12,781**	11,004
Taiwan	**9,198**	7,319
Others	**2,026**	1,203
	147,471	150,212

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

Capital expenditures

	Unaudited Six months ended 30 June			
	Property, plant and equipment		**Investments in associated companies**	
	2010 US$'000	2009 US$'000	**2010 US$'000**	2009 US$'000
Hong Kong	**113**	49	**—**	—
China	**1,980**	100	**—**	690
Taiwan	**—**	23	**—**	—
South East Asia	**732**	30	**—**	—
Japan	**6**	—	**—**	—
	2,831	202	**—**	690

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

6. Other gain/(loss) – net

	Unaudited Six months ended 30 June	
	2010 US$'000	2009 US$'000
Financial assets at fair value through profit or loss:		
– Fair value gain	**503**	1,445
– Fair value loss	**(2,004)**	(30)
Gain on dilution for deemed disposal of an associated company	**555**	—
	(946)	1,415

7. Operating loss

The following items which have been (credited)/charged to the operating loss during the period are listed because of their nature, size or incidence:

	Unaudited Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Cost of goods sold	**26,362**	18,281
Depreciation of owned property, plant and equipment	**1,299**	1,883
Depreciation of leased property, plant and equipment	**1**	1
Operating leases for land and buildings	**643**	590
Provision for impairment loss of investment in an associated company	**655**	—
Provision/(Write-back of provision) for obsolete or slow moving inventories	**85**	(2,664)
Director and employee benefit expenses:		
– Equity compensation	**304**	419
– Non-equity compensation	**8,512**	8,163
Net exchange loss	**450**	25

8. Income tax

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

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 periods ended 30 June 2010 and 2009.

	Unaudited Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Current income tax:		
– Hong Kong	**—**	—
– Overseas	**2**	(2)
Write-back of income tax provisions in prior years	**—**	(1,156)
Deferred income tax	**—**	(98)
Income tax expense/(credit)	**2**	(1,256)

9. Loss per share

The calculation of basic and diluted loss per share is based on the Group's loss attributable to the equity holders of the Company of US$3,943,000 (2009 loss: US$2,331,000).

The basic loss per share is calculated based on the weighted average number of 2,437,134,484 (2009: 2,442,928,853) ordinary shares in issue excluding own shares held during the period.

The diluted loss per share is calculated based on 2,455,090,342 (2009: 2,445,001,025) ordinary shares which is the adjusted weighted average number of ordinary shares outstanding assuming the conversion of all dilute/potential share options outstanding but excluding unallocated own shares held during the period. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the reporting period) 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.

	Unaudited Six months ended 30 June	
	2010	2009
Weighted average number of ordinary shares in issue	**2,437,134,484**	2,422,928,853
Adjustments for:		
– allocated own shares held under share award scheme	**11,150,387**	21,361,288
– share options	**6,805,471**	710,884
Weighted average number of ordinary shares for diluted loss per share calculation	**2,455,090,342**	2,445,001,025

10. Dividend

	Unaudited Six months ended 30 June	
	2010 US$'000	2009 US$'000
Dividend attributable to the previous year, approved and paid during the period:		
– 2009 final dividend, paid, of HK$0.01 (approximately 0.13 US cent) per ordinary share[(i)]	**3,166**	—
– 2008 final dividend, paid, of HK$0.03 (approximately 0.39 US cent) per ordinary share	**—**	9,466
	3,166	9,466

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

11. Trade and other receivables

	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000
Trade receivables	**12,792**	10,546
Less: provision for impairment of receivables	**—**	—
Trade receivables – net	**12,792**	10,546
Deposits, prepayments and other receivables	**5,038**	2,910
	17,830	13,456

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

	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000
Current	**11,408**	8,166
1 - 30 days	**1,250**	2,029
31 - 60 days	**95**	222
61 - 90 days	**37**	72
91 - 180 days	**—**	27
181- 365 days	**2**	30
	1,384	2,380
	12,792	10,546

As at 30 June 2010, trade receivables of US$1,384,000 (31 December 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.

As at 30 June 2010, no trade receivables was impaired (31 December 2009: Nil) and provided for (31 December 2009 provision: Nil).

12. Trade and other payables

	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000
Trade payables	12,968	9,283
Accrued expenses and other payables	3,612	3,241
	16,580	12,524
Other payables – non-current portion	—	(133)
	16,580	12,391

As at 30 June 2010, the ageing analysis of trade payables based on overdue days is as follows:

	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000
Current	12,770	8,261
1 - 30 days	159	947
31 - 60 days	—	19
61 - 90 days	—	8
Over 90 days	39	48
	12,968	9,283

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

For the six months ended 30 June 2010, the Group's sales was US$38.0 million (1H 2009: US$26.7 million), up 42% year-on-year. The overall market showed signs of recovery in the 1H 2010. Demand for semiconductors in the global market increased while manufacturing capacity in the supply chain was tight.

The Group recorded a 71% increase year-on-year in shipment quantity and a 15% year-on-year drop in the blended average selling price ("ASP") of its products. The drop in blended ASP was caused by a change of product mix. The increase in net sales of US$11.4 million was mainly due to (1) global market recovery and stronger overall demand for overall semiconductors products; (2) the percentage increase in shipment quantity being significantly larger than the change in ASP; (3) Advanced Display products gaining a foothold in emerging market applications; and (4) the Group's new businesses gradually increasing their contribution. Gross profit was US$11.2 million, up by 51% compared with the last period (1H 2009: US$7.4 million) as a result of increase in sales. The Group's gross margin rose slightly to 29.5% from 27.9% in 1H 2009. The increase in gross margin was due to a higher percentage of products with relatively higher profit margin contributions. Inventory scrap was minimal in 1H 2010. The Group has redoubled its efforts to improve its manufacturing productivity through product yield improvement and full utilization of its own manufacturing assets.

The Group has remained vigilant on controlling its expenses. Total expenses, including research and development costs ("R&D expenses"), selling and distribution expenses ("S&D expenses") and administrative expenses, were US$14.1 million, up by US$0.9 million, representing a 7% increase.

S&D expenses increased by US$0.4 million, up 22%, to support the sales growth of 42%.

Administrative expenses grew slightly by 3% year-on-year after the gradual relaxation of certain belt-tightening measures since 2H 2009. The Group continued to invest in R&D and business development, and remained selective in its R&D spending. R&D expenses were US$7.3 million, up 6% over the spending in1H 2009.

During the period, the Group recognized a gain of US$0.2 million from financial assets at fair value through profit or loss ("FVTPL") and interest income of US$0.6 million. However, an unrealized loss of US$1.5 million (1H 2009 gain: US$1.4 million) was recorded from the investment in FVTPL portfolio as at 30 June 2010. The Group also made a provision of impairment on the goodwill arising from the acquisition of an associated Company in 2008 amounted to US$0.7 million.

Loss before income tax was US$3.9 million (1H 2009: US$3.6 million) of which US$2.9 million (1H 2009: US$5.7 million) was related to the principal businesses from display ICs and system solutions. The loss before income tax in respect of the principal business was significantly reduced by half. The Group recorded a net loss attributable to the Company's equity holders of US$3.9 million (1H 2009: US$2.3 million, which included a special tax credit of US$1.2 million).

No interim dividend for the six months ended 30 June 2010 was declared by the Board.

Liquidity and Financial Resources

Net cash used in operating activities during the period was US$4.0 million (1H 2009: US$7.7 million). Total cash and bank deposits and equivalents (including other financial assets) of the Group amounted to US$78.3 million as at 30 June 2010, compared to US$92.8 million at 2009 year end. The change in cash position was mainly a result of (1) net outflow from operations amounting to US$4.0 million because of net increase in working capital; (2) dividend payment of US$3.2 million; (3) investment in equipment of US$2.8 million, and (4) increase in investment in FVTPL US$5.6 million.

Regarding the use of cash reserves, the Group will continue to allocate funds for product development, securing production capacity, and entering into strategic corporate ventures as well as supporting general corporate operational purposes. At 30 June 2010, the Group had no major borrowing other than the US$0.8 million in mortgaged loan for the purchase of office property in Hsinchu, Taiwan. The Group's cash balance was mainly invested in bank deposits.

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

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 was diluted to 10.3%. APT is no longer accounted for under equity method of accounting effective as the Group no longer has any significant influence over APT.

On 19 March 2010, the Group has set up a new subsidiary in Beijing, China with registered capital of US$8 million. US$1.2 million was injected into the entity in June 2010. The balance of registered capital is to be paid up by March 2012.

On 4 June 2010, the Group has 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 as at 30 June 2010. The completion of the Sale and Purchase Agreement is subject to the purchaser obtaining the relevant governmental/regulatory approval in Taiwan.

In 1H 2010, capital expenditure was US$2.8 million, the majority of which was related to the Group's set up and purchase of equipment in China.

As at 30 June 2010, there was US$0.5 million intellectual property license contracted but not provided for in the Group's subsidiary in Singapore. Saved as aforesaid, the Group had no other material capital commitment or contingent liability.

BUSINESS REVIEW

Product Shipment

In the review period, the Group has shipped a total of 69.1 million units of display ICs, up by 71% year-on-year. The shipments of Mobile Display products, including STN/CSTN driver ICs, mobile TFT driver ICs and touch panel ICs, were up by 34% as the overall consumer electronics market demand was stronger during the period. The shipment of Advanced Display products increased more than a double as its OLED display ICs and new display ICs were securing design-wins for a wide range of new applications. In the 1H 2010, the Group also shipped more than 1.5 million units of graphic controllers, multimedia processors and Mobile Industry Processor Interface ("MIPI") chipsets under the Display System Solution business, and the Green Power business shipped an initial consignments of LED driver ICs and power modules. The shipment breakdown by business units is as follows:

Units Shipped (million)	**1H 2010**	**1H 2009**	**Change**	**2009**
Mobile Display	**32.0**	23.8	34%	55.5
Advanced Display	**35.5**	15.6	128%	34.6
Display System Solution	**1.5**	1.1	36%	2.5
Green Power	**0.1**	0	>100%	0.1
Total	**69.1**	40.5	71%	92.7

Business Relationships

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

For the Display IC businesses, the Group currently serves most of the major display module makers in the world. The Group continues to focus on approaching both display module makers and end-product manufacturers directly to ensure it delivers the most appropriate product solutions and value-added services to them. During the period, the Group has been actively engaged with leading customers and top-tier end-product manufacturers from China, Europe, Japan, Korea, Taiwan and USA to support them with the best products and to develop the next generation products with new competitive features.

Regarding System Solution businesses, the Group provides customers with total system solutions in two focus areas: Display System and Green Power. Display System Solution supports specific multimedia applications. Working in alignment with independent design house ("IDHs"), the Group offers timely and total system solutions to original design manufacturers ("ODMs"). During the review period, several top-tier brands' advanced pico-projectors were successfully launched into the market using the Group's MagusCore™ multimedia system solution. 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, the Group was able to enlarge its total solutions offerings and broaden its customer base for emerging market applications. The leading-edge technology in the system solutions business unit of the Group has further reinforced its business relationships with existing customers while attracting new key customers.

Research and Development

In the past six months, research and development costs were approximately US$7.3 million. To support business transformation and stay competitive in the marketplace, the Group continues to enhance the features of existing products and develop new product technologies and product lines including multi-touch panel intellectual property ("IP"), high speed Mobile Display Digital Interface ("MDDI") ICs, display memory compression, non-flickering frame rate control ("FRC"), Android 2.1 software platform for mobile multimedia products, M4/T4 standard for hearing aids for elderly phone, offline dimmable LED driver ICs, power supply modules and LED lighting system designs for energy-saving lighting.

In the first half of 2010, the Group had filed two patents for operating capacitive touch panel and image compression technology in different regions including the US, China, Taiwan, Korea and Europe.

As at 30 June 2010, the Group had 221 professionals in the design and engineering function, representing approximately 48% of its total employee headcount. The Group's R&D team continually designs products using various wafer process technologies as advanced as 90nm. Besides, the Group has specialist teams in Hong Kong, Beijing, Shenzhen and Singapore with different expertise including mix-signal high-voltage IC design, VLSI (Very-large-scale-integration) design, application software design, system applications and wireless technology.

Human Resources

As at 30 June 2010, the Group had a workforce of 459 employees, 45% of which 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 7% increase in headcount compared to 30 June 2009. The increase is mainly in the production area of the Group's subsidiary in China.

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

During 1H 2010, salary reduction for Executive Directors and certain senior management continued as part of the cost control measures.

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

Prospects

With the book to bill ratio at 1.6 for the period ended 30 June 2010, the Group sees strong market demand in the second half of 2010 and customers are also more willing to place long term orders. To fulfill that demand, the Group will continue to work closely with its foundry partners and manage the supply chain efficiently. The Group intends to continue its march forward by delivering innovative industry-leading ICs, launching new system solutions for emerging high-growth applications, expanding its customer base and further developing its business in the emerging China market. The Group will keep on diversifying its product portfolio and provide fast turnkey solutions to customers. As at 30 June 2010, the Group registered a backlog of orders at around 52 million units for the second half of 2010.

Display IC Businesses

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, smart phones, personal navigation devices ("PND"), audio/video ("AV") applications, mobile internet devices ("MID"), netbooks and other portable equipment. The unit covers key technologies including STN, m-TFT LCD display ICs and touch panel ICs, for monochrome and color displays as well as displays with touch panel functions.

The Group believes there is a huge market potential for high-end products such as smart phones and MID that come with high definition ("HD"), medium size display and multi-touch functions. 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 panel controllers for 5", 7" or bigger displays and TFT driver controllers for WVGA and 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 3D display.

Advanced Display

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

The Group continues to be the leader in the Passive Matrix OLED ("PMOLED") display IC market, providing a full range of PMOLED driver ICs from icon, mono and grey scale to full color with integrated new features to stay ahead of the competition. As the PMOLED display technology and its manufacturing process become mature, it finds its new competitive edge in small size, mono display applications. To further expand its business opportunity, the Advanced Display business unit is developing new PMOLED display ICs with built-in Character ROMs, which will be launched in 2H 2010. The Group also develops Active Matrix OLED (“AMOLED”) display ICs with leading panel makers.

In addition to PMOLED and AMOLED displays, the Group sees another great market potential in OLED Lighting, which the OLED is in thin film form and can emit bright light with high power efficiency. Riding on the success on its PMOLED display IC, the Group is extending its technology to support OLED Lighting and expects to capture the growth of this market segment in coming years.

The market for OLED display ICs in general is expected to carry on its stable growth in the 2H 2010, 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, Bluetooth headsets and pocket WiFi, to industrial applications including USB bank keys, as well as office equipment and health care products.

For the New Display, 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 large volume new display IC for electronic shelf label applications and the design-in work will continue in 2H 2010 involving e-signage, portable storage devices, mobile phone indices, mobile decorative displays and e-cards, and more.

The Group continues to provide different varieties of IC solutions to cater for the requirements of different new display technologies such as electrophoretic, cholesteric and other bistable displays.

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 markets and new applications. Thus the Group will continue to research these and other new technologies and to expand this business to ensure it stays ahead of the competition.

Large Display

The Large Display business unit addresses large display applications such as LCD TVs, LCD monitors and notebook computers. As large display manufacturing begins booming in China, a dedicated team has been set up and moved-in to its new Beijing Technology and Business Center. New products to support its business partners in large display are under development and to be ready for customers’ qualification in 2H 2010. The team intends to work closely with the Green Power business unit on LED backlight solutions to provide local support to major LCD customers in China and Asia.

System Solution Businesses

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 will continue to build up its momentum to ship over 1.5 million IC units in 1H 2010 and the Group believes it will bring in diverse sources of revenue stream and gradually become an important contributor to the Group’s future results.

Products in production like image processors and graphic controllers are supporting the latest consumer applications such as mobile phones, PND, MID and other portable consumer electronic devices. Given the continuous design-wins for its new display controller products, the Group expects increase in volume shipments for this segment in 2H 2010.

With an early leadership in MIPI, the business unit won several design-ins for its MIPI ICs into a variety of products including some new model Android phones from top-tier players in the high-speed mobile interface market. The MIPI-related business is expected to increase the volume shipment in 2H 2010.

The Group continues to expand its product offering on the high-performance **MagusCore**™ multimedia system solution through the launch of 3rd generation of multimedia chip, thereby gaining new businesses. During the review period, several top-tier customers had successfully launched new, advanced pico-projectors incorporating the **MagusCore**™ multimedia system solution. In 2H 2010, 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, MID and 3D TV. The Group believes the **MagusCore**™ system solution is poised to capture the market and help to accelerate development of its business.

The Display System Solution business unit also has a strong competence in design, development and integration of advanced wireless communication technology and devices. It specializes in designing new mobile multimedia 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 1H 2010. To seize a potentially booming opportunity in the market for Android-based devices, the unit is also working on building its technical capabilities in Android mobile system solutions.

Green Power

The Green Power business unit focuses on providing energy-saving LED indoor and outdoor lighting solutions and LED backlighting where the Group sees the booming market for solid state lighting and signage industry, for the environmental friendly concern as well as for features enhancement in large display applications. The Green Power business unit shipped a small production quantity in 1H 2010 and also developed a new dimmable LED lighting solution. As this market is still at its initial stage of development, there is considerable room for the market to grow and expand. Therefore, the Group will keep working on new products and market development in 2H 2010, with more value-added LED driver ICs and LED power modules, and also LED backlight solutions for supporting large display applications such as LCD TVs, LCD monitors and notebook computers.

CORPORATE GOVERNANCE & SUPPLEMENTARY INFORMATION

Corporate Governance is highly regarded within the Group. The Group keeps abreast of the best practices in the corporate governance area and strives to implement such practices as appropriate. At present, the roles of Non-executive Chairman and the Chief Executive Officer (in the case of the Group, the Managing Director) are separated. In addition, Independent Non-executive Directors ("INEDs") and Non-executive Directors ("NEDs") are appointed for a specific term, subject to re-election according to the procedures set out in the Company's Articles of Association. INEDs and NEDs are encouraged to take educational courses at the expense of the Group on duties of the Board and corporate governance.

Compliance with the Code on Corporate Governance Practices and Model Code for Securities Transactions by Directors of Listed Issuer

Pursuant to Appendix 14 of the Listing Rules, the Group established its own written guidelines ("Guidelines") on no less exacting terms than the Appendix 10 of the Listing Rules ("Model Code") for the Directors and relevant employees who are likely to be in possession of unpublished price sensitive information in respect of their dealings in the securities of the Company. Specific enquiry had been made with the Directors and relevant employees and they had complied with the Group's own Guidelines throughout the six months ended 30 June 2010.

After due enquiry to all the directors, there is no change in any of the information of directors as required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) during the course of the director's term of office required to publish an announcement according to Rule 13.51B(2).

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 Plan of the Company on 9 February 2010.

Save 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.

Review of Interim Condensed Consolidated Financial Information

The Audit Committee is composed of three INEDs. The unaudited Interim Condensed Consolidated Financial Information of the Group for the six months ended 30 June 2010 have been reviewed by the Audit Committee of the Company alongside the internal audit team.

The unaudited Interim Condensed Consolidated Financial Information of the Group for the six months ended 30 June 2010 have 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.

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

Hong Kong, 18 August 2010

As at the date of this announcement, the Board comprise:(a) Executive Directors – Mr. LEUNG Kwong Wai (Managing Director), Mr. CHEUNG Wai Kuen, Kenny, Mr. HUANG Hsing Hua, Mr. LAI Woon Ching and Mr. LO Wai Ming; (b) Non-executive Directors – Dr. LAM Pak Lee (Mr. SHEU Wei Fu as his *alternate) and (c) Independent Non-executive Directors – Mr. SUN, Patrick (Chairman), Mr. CHOY Kwok Hung, Patrick and Mr. WONG Yuet Leung, Frankie.*