SOLOMON SYSTECH

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

2011 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

- Sales decreased by 28% to US$27.5 million
- Gross profit dropped by 21% to US$8.9 million
- Gross profit margin increased from 29.5% to 32.5%
- Net loss was US$5.2 million
- Basic loss per share was 0.21 US cent (1.6 HK cents)
- Book to bill ratio for the six months ended 30 June 2011 was 1.1
- The Board of Directors resolved not to declare any interim dividend

INTERIM RESULTS

The directors (the "Directors") of Solomon Systech (International) Limited (the "Company") 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 2011 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2011

		Unaudited Six months ended 30 June	
	Note	**2011**	2010
		US$'000	US$'000
Sales	5	**27,454**	38,018
Cost of sales	6	**(18,534)**	(26,799)
Gross profit		**8,920**	11,219
Research and development costs	6	**(8,348)**	(7,259)
Selling and distribution expenses	6	**(1,759)**	(1,932)
Administrative expenses	6	**(4,130)**	(4,931)
Other income/(expenses)		**49**	(3)
		(5,268)	(2,906)
Finance income/(costs) – net	7	**153**	(676)
Share of results of associated companies		**(64)**	(359)
Loss before income tax		**(5,179)**	(3,941)
Income tax expense	8	**(2)**	(2)
Loss attributable to the equity holders of the Company		**(5,181)**	(3,943)
Loss per share attributable to the equity holders of the Company: (expressed in US cent per share)	9		
– Basic		**(0.21)**	(0.16)
– Diluted		**(0.21)**	(0.16)
Dividend	10	**—**	—

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Unaudited Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Loss for the period	**(5,181)**	(3,943)
Other comprehensive (loss)/income for the period:		
– Currency translation differences	**(341)**	17
Total comprehensive loss attributable to the equity holders of the Company	**(5,522)**	(3,926)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2011

	Note	Unaudited 30 June 2011 US$'000	Audited 31 December 2010 US$'000
ASSETS			
Non-current assets			
Prepaid operating lease		1,233	1,185
Property, plant and equipment		7,313	8,518
Investments in associated companies		926	990
Available-for-sale financial assets		2,506	2,506
		11,978	13,199
Current assets			
Inventories		11,306	13,778
Trade and other receivables	11	11,858	22,477
Financial assets at fair value through profit or loss		25,075	25,034
Other financial assets		5,200	1,278
Pledged bank deposits		130	130
Short-term fixed deposits		13,058	27,219
Cash and cash equivalents		64,303	51,102
		130,930	141,018
Total assets		142,908	154,217
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		31,658	31,619
Reserves			
Own shares held		(167)	(279)
Others		98,202	103,621
Total equity		129,693	134,961
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		11	35
Bank loan		639	686
Deferred income tax liabilities		50	50
		700	771
Current liabilities			
Obligations under finance leases		7	12
Trade and other payables	12	11,234	17,161
Bank loan		95	95
Deferred income		179	217
Current income tax liabilities		1,000	1,000
		12,515	18,485
Total liabilities		13,215	19,256
Total equity and liabilities		142,908	154,217
Net current assets		118,415	122,533
Total assets less current liabilities		130,393	135,732

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 TV, consumer electronic products, industrial appliances and green energy applications such as LED lighting.

The Company was incorporated in the Cayman Islands on 21 November 2003 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Companies Law"). The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and the address of its principal office in Hong Kong Special Administrative Region ("Hong Kong") is 6/F., No.3 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

The Company has been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 8 April 2004.

These 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 2011.

This condensed consolidated interim financial information has not been audited.

2. Key event

Beijing LED Lighting Engineering Co., Ltd. ("BJ-LED"), the associated company that the Group had 47% ownership as at 31 December 2010, proposed a fund raising of CNY10,000,000 (approximately US$1,546,000) to increase the capital contribution to CNY20,000,000 (approximately US$3,091,000) in March 2011. Following the decision of the Investment Committee of the Company, the Group decided not to participate in the said fund raising exercise. Approval Certificate for the revised ownership was obtained from the Beijing Municipal Government in May 2011 and the Group's percentage ownership was diluted to 23.5%. Equity method of accounting continues to be used for consolidating BJ-LED to the financial results of the Group.

3. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2011 ("Interim Financial Information") of the Group has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The Amendment to HKAS 34 which has been effective for annual periods beginning on or after 1 January 2011 covering disclosure of changes to fair value measurement (if significant) and the need to update relevant information from the most recent annual report have been accounted for.

The condensed consolidated interim financial information should be read in conjunction with the Company's annual report for the year ended 31 December 2010, 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 2010, as described in those annual consolidated financial statements.

Income tax expense is calculated based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the profit before income tax of the interim period.

Certain comparative figures in the Interim Financial Information relating to the results arising from the Group's investments in financial instruments and associated companies, namely "other income/(expenses)", "finance income/(costs) - net" and "share of results of associated companies" have incorporated figures previously classified under "other gain/(loss) - net" and "other operating expenses" in order to conform to the current period's presentation for a fairer presentation of the Group's activities. These reclassifications have no effect on the Group's consolidated financial positions as at both 31 December 2010 and 30 June 2011, or the Group's loss or cash flows for the six months ended 30 June 2010 and 2011.

(a) New, revised and amended standards and interpretations to existing standards effective in 2011

The Group has adopted the following new, revised 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 2011:

- HKAS 24 (Revised) — Related party disclosures
- HKAS 32 (Amendment) — Classification of rights issue
- 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 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 positions for the current or prior accounting periods have been prepared and presented.

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

The following new, revised and amended standards have been issued, but not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group:

		Effective for annual periods beginning or after
• HKAS 1 (Amendment)	Presentation of items of other comprehensive income	1 July 2012
• HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	1 January 2012
• HKAS 19 (Revised)	Employee benefits	1 January 2013
• HKAS 27 (Revised)	Separate financial statements	1 January 2013
• HKAS 28 (Revised)	Investments in associates and joint ventures	1 January 2013
• HKFRS 9	Financial instruments	1 January 2013
• HKFRS 10	Consolidated financial statements	1 January 2013
• HKFRS 11	Joint arrangements	1 January 2013
• HKFRS 12	Disclosure of interests in other entities	1 January 2013
• HKFRS 13	Fair value measurement	1 January 2013
• Amendment to HKFRS 1	First-time adoption of HKFRSs - severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
• Amendment to HKFRS 7	Disclosures - transfers of financial assets	1 July 2011

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

5. Segment information

During the period under review, 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 mobile phones, portable devices, LCD TVs, consumer electronic products, industrial appliances and green energy applications such as LED lighting.

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

The chief operating decision-makers have been identified as the executive directors and senior management led by the Group CEO (Managing Director). The executive directors 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.

Sales amounted to US$27,454,000 and US$38,018,000 for the six months ended 30 June 2011 and 2010 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, Taiwan and Korea.

Sales

	Unaudited Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Hong Kong	**9,375**	10,677
Taiwan	**5,423**	7,346
Korea	**4,465**	10,094
Japan	**1,617**	1,711
Mainland China ("China")	**1,075**	4,166
South East Asia	**1,147**	928
United States of America ("USA")	**460**	622
Others	**3,892**	2,474
	27,454	38,018

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

Total assets

	Unaudited	Audited
	30 June	31 December
	2011	2010
	US$'000	US$'000
Hong Kong	**117,586**	127,701
China	**15,621**	15,383
Taiwan	**8,472**	9,771
Others	**1,229**	1,362
	142,908	154,217

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

Capital expenditures

	Unaudited Six months ended 30 June			
	Prepaid operating lease		Property, plant and equipment	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong	**—**	—	**313**	113
China	**36**	—	**109**	1,980
South East Asia	**—**	—	**126**	732
Japan	**—**	—	**—**	6
	36	—	**548**	2,831

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

6. 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	
	2011 US$'000	2010 US$'000
Cost of inventories sold	17,784	26,362
Amortization of the prepaid operating lease	12	—
Depreciation of owned property, plant and equipment	1,373	1,299
Depreciation of leased property, plant and equipment	3	1
Operating leases for land and buildings	686	643
Provision for impairment loss of investment in an associated company	—	655
Provision for obsolete or slow moving inventories	819	85
Employee benefit expenses (including Directors' emoluments):		
– Equity compensation	147	304
– Non-equity compensation	9,483	8,512
Net exchange gain or loss	(597)	450

7. Finance income/(costs) – net

	Unaudited Six months ended 30 June	
	2011 US$'000	2010 US$'000
Income:		
– Gain on disposal of financial assets at fair value through profit or loss	1	28
– Interest income from deposits	539	633
– Dividend income	152	116
– Others	153	55
– Net unrealizable gain or loss from financial assets at fair value through profit or loss:		
– Fair value gain	155	503
– Fair value loss	(840)	(2,004)
Costs:		
– Interest element of finance leases	(1)	(1)
– Interest expense of bank loan	(6)	(6)
	153	(676)

8. Income tax expense

Income tax expense is calculated based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the profit before income tax of the interim period.

Hong Kong income tax has been provided at the rate of 16.5% (2010: 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 2011 and 2010.

	Unaudited Six months ended 30 June	
	2011 **US$'000**	2010 US$'000
Current income tax :		
– Hong Kong	**—**	—
– Overseas	**2**	2
Deferred income tax	**—**	—
	2	2

9. Loss per share

Basic loss per share

The basic loss per share is calculated based on the Group's loss attributable to the equity holders of the Company of US$5,181,000 (2010: US$3,943,000) and the weighted average number of 2,450,862,633 (2010: 2,437,134,484) ordinary shares in issue excluding own shares held during the current period.

Diluted 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.

During the six months ended 30 June 2011 and 2010, the conversion of all dilutive share options outstanding and inclusion of allocated own shares held would have an anti-dilutive effect on the loss per share. Accordingly, there was no dilutive effect on the calculation of the diluted loss per share in both periods.

Weighted average number of ordinary shares

	Unaudited Six months ended 30 June Number of shares	
	2011	2010
Weighted average number of ordinary shares in issue	**2,450,862,633**	2,437,134,484
Allocated own shares held under Share Award Scheme	**1,642,853**	11,150,387
Conversion of all dilutive share options outstanding	**—**	6,805,471
Adjusted weighted average number of ordinary shares for diluted loss per share calculation	**2,452,505,486**	2,455,090,342

10. Dividend

No dividend related to the year ended 31 December 2010 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 2011.

11. Trade and other receivables

	Unaudited 30 June 2011 US$'000	Audited 31 December 2010 US$'000
Trade receivables	8,866	13,327
Provision for impairment of receivables	—	—
Trade receivables - net	8,866	13,327
Deposits, prepayments and other receivables	2,992	9,150
	11,858	22,477

As at 30 June 2011, the Group's trade receivables from corporate customers were mainly on credit terms of 30 to 90 days. The ageing analysis of trade receivables based on overdue days is as follows:

	Unaudited 30 June 2011 US$'000	Audited 31 December 2010 US$'000
Current	7,297	10,876
1 - 30 days	1,423	2,330
31 - 60 days	23	120
61 - 90 days	118	—
91 - 180 days	5	—
181- 365 days	—	1
	1,569	2,451
	8,866	13,327

As at 30 June 2011, trade receivables of US$1,569,000 (31 December 2010: US$2,451,000) were considered past due if measured strictly against the credit terms offered. The overdue sum was not impaired since the majority of the overdue sum has been settled after the balance sheet date.

As at 30 June 2011 and 31 December 2010, no trade receivables were impaired and provided for.

12. Trade and other payables

	Unaudited 30 June 2011 US$'000	Audited 31 December 2010 US$'000
Trade payables	7,668	11,835
Accrued expenses and other payables	3,566	5,326
	11,234	17,161

As at 30 June 2011, the ageing analysis of trade payables based on overdue days is as follows:

	Unaudited 30 June 2011 US$'000	Audited 31 December 2010 US$'000
Current	7,612	8,524
1 - 30 days	14	3,201
31 - 60 days	1	36
61 - 90 days	—	34
Over 90 days	41	40
	7,668	11,835

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

For the six months ended 30 June 2011, the Group's sales were US$27.5 million (1H 2010: US$38.0 million), decreased by 28% year-on-year. The overall market demand was not strong in 1H 2011 due to a cautious outlook for 2011 economic growth in the aftermath of the Japan earthquake and lingering European sovereign debt issues.

Sales and Profit

The Group recorded a 22% decrease year-on-year in shipment quantity and a 8% year-on-year decrease in the blended average selling price ("ASP") of its products. The decrease in blended ASP was caused by a change of product mix. The sales decrease was mainly due to (1) lower than expected Mobile Display business unit sales, and (2) a later than anticipated start of volume sales for new products resulting from a weakened demand from customers. Gross profit was US$8.9 million, down by 21% (1H 2010: US$11.2 million) as a result of the drop in sales. During the period, the Group's gross margin rose to 32.5% from 29.5% in the first half of 2010. The increase in gross margin was mainly due to a higher percentage of products with higher profit margin contributions. Inventory scrap was US$0.8 million (including an offset of approximately US$0.4 million to the standard cost written on for slow moving inventory with full provision made in prior years) in the first half of 2011. 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. The Group's total expenses, including research and development ("R&D") costs, selling and distribution ("S&D") expenses and administrative expenses, were US$14.2 million, up by US$0.1million, representing a minor increase of 1%.

S&D expenses were lowered by 9% from US$1.9 million in the first half of 2010 to US$1.8 million in the current period.

Administrative expenses decreased by 16% year-on-year to US$4.1 million which included an exchange gain of US$0.6 million (1H 2010: exchange loss of US$0.5 million). The Group continued to invest in R&D and business development, and remained selective in its R&D spending. Its R&D expenses were US$8.3 million, up 15% over the spending in the first half of 2010.

During the period under review, the Group recorded interest income of US$0.5 million as well as dividends and other income of US$0.3 million from financial assets at fair value through profit or loss ("FVTPL"), totaling US$0.8 million. However, a net unrealized loss of US$0.7 million (1H 2010: US$1.5 million) was recorded from the investment in the FVTPL portfolio as at 30 June 2011.

Net loss was US$5.2 million (1H 2010: US$3.9 million).

The Board resolved not to declare any interim dividend for the six months ended 30 June 2011.

Liquidity and Financial Resources

Net cash used in operating activities during the period was US$1.1 million (1H 2010: US$4.0 million). Total bank deposits and cash and cash equivalents (including other financial assets) of the Group amounted to US$82.6 million as at 30 June 2011, compared to US$79.6 million at the end of 2010. The change in cash position was mainly a result of (1) net outflow from operations amounting to US$1.1 million resulted from the loss for the period adjusted for non-cash items and the decrease in working capital; (2) receipt of US$5.5 million in early 2011 as the proceeds from the disposal of an available-for-sale financial assets in late 2010; (3) addition of fixed assets US$0.5 million and FVTPL of US$0.7 million; and (4) payment of US$1.0 million related to the prepaid operating lease in connection with the land use rights in Beijing, China.

Regarding the use of cash reserves, the Group will continue to allocate funds for product development, securing production capacity, strengthening its infra-structure in mainland China to broaden its customer base and capture market and sales opportunities, entering into strategic corporate ventures and meeting general corporate operational purposes. As at 30 June 2011, the Group had no major borrowing other than the US$0.7 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.

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 as the Directors considered this exposure to be insignificant.

Capital Expenditure and Contingent Liabilities

In the first half of 2011, capital expenditure of the Group was US$0.6 million, of which the majority was related to the Group's set up and purchase of equipment in Hong Kong and China.

As at 30 June 2011, US$0.5 million of capital expenditure was contracted but not provided for, majority of which was for the preliminary preparations needed for the construction in Beijing, China.

Saved as aforesaid, the Group had no other material capital commitment or contingent liability.

BUSINESS PERFORMANCE AND OUTLOOK

Product Shipment

During the period under review, the Group shipped a total of approximately 54 million display IC units, representing a year-on-year decrease of 22%. This decrease was primarily attributable to: (1) lower than expected Mobile Display business unit sales and (2) a later than anticipated start of volume sales for new products resulting from a weakened demand from customers. The weakened demand was due to a cautious outlook for 2011 economic growth in the aftermath of the Japan earthquake and lingering European sovereign debt issues.

The unit shipments of Mobile Display products, including STN/TFT LCD driver ICs and touch panel ICs, decreased by approximately 42% to 18.6 million units (2010: 32.0 million units). Despite the growing demand for the Group's touch panel products, its Mobile Display unit experienced a sequential sales decline during the period due to reduced sales contribution of driver ICs from Korea, its largest sales market in 2010. The unit shipments of Advanced Display products, including OLED display ICs and new display ICs, dropped slightly by about 5% to approximately 33.8 million units. This was attributed to a reduction in demand for mobile sub-displays using Passive Matrix OLED ("PMOLED") driver ICs as the mobile phone market was dominated by smartphones. The unit shipments of Display System Solution products decreased by approximately 10% to 1.4 million units year-on-year, as the demand for eReader products was significantly reduced. The Group's Green Power business unit shipped approximately 0.2 million units of LED driver IC and LED backlight power modules to new clients in China and Europe, a 256% increase compared to the same period last year.

Breakdown of unit shipments by business units is as follows:

Units Shipped (million)	1H 2011	1H 2010	Change	2010
Mobile Display	18.6	32.0	-42%	72.1
Advanced Display	33.8	35.5	-5%	67.0
Display System Solution	1.4	1.5	-10%	2.9
Green Power	0.2	0.1	256%	0.2
Total	**54.0**	**69.1**	**-22%**	**142.2**

Business Relationship

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

For its Display IC business, the Group is serving most of the major global display module makers. We focus on approaching both display module makers and end-product manufacturers directly to ensure we deliver the most appropriate product solutions and value-added services to them. During the period under review, in addition to display module makers and related end-product manufacturers, the Mobile Display business unit has also been collaborating with capacitive touch panel makers and related end-product manufacturers to produce the Group's first capacitive touch panel solutions. The Group's Large Display business unit has been working with target customers to qualify its new driver ICs for monitor modules, to be in time for volume shipments; while its Advanced Display business unit has secured design wins in OLED applications as well as electronic shelf labels. Looking ahead, the Group intends to strengthen relationships with leading customers and top-tier end-product manufacturers from China, Europe, Japan, Korea and Taiwan.

Regarding the System Solution business, the Group provides customers with total system solutions in two focus areas: Display System Solutions and Green Power. Display System Solutions supports specific multimedia applications. Working in alignment with independent design houses ("IDHs"), the Group offers timely and total system solutions to original design manufacturers ("ODMs"). During the period under review, the Group's **MagusCore**™ multimedia system solution secured several design wins in pico and pocket projectors with rich multimedia and connectivity capabilities. 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 offering and broaden its customer base for emerging market applications. In addition, the Group's Large Display business unit has been collaborating with the Green Power business unit on LED backlighting to provide total TV display solutions.

Research and Development

As a technology company, the Group is deeply devoted to R&D. The Group spent approximately US$8.3 million on R&D in the first half of 2011, representing about 59% of the total expenses and 30% of sales for the period under review. The Group's continual investment in R&D testifies to its determination to develop and offer innovative products to cater to the rapidly changing market trends and to capture new business opportunities.

The Group has been relentlessly enhancing the features of existing products and developing new products. Numerous intellectual properties ("IP") were developed or under development during the past six months, such as display driver power management, electronic signage embedded control, display color management and memory compression, multi-lane high speed mobile interface and touch panel control.

In the past six months, the Group had three patents granted, including two for display driver design and one for image enhancement, and one patent filed for LED controller driver design. The Group also had several patents being filed with patent offices in different regions, including the USA, China, Taiwan, Korea and Europe.

As at 30 June 2011, the Group had an R&D workforce of 248, representing approximately 51% of our entire staff. The Group's R&D team continually designs products using various wafer technologies as advanced as 90nm. We also have specialist teams in Hong Kong, Beijing, Shenzhen and Singapore possessing expertise in mix-signal high-voltage IC design, VLSI (very-large-scale-integration) design, application software design, system applications and wireless technology.

Human Resources

As at 30 June 2011, the Group had a workforce of 487 employees (31 December 2010: 480), of whom about 43% were based at the Hong Kong headquarters and the rest were located in China, Japan, Singapore, Taiwan and the USA. The Group always optimizes resources with a strategic staffing arrangement. During the period under review, the Group transferred manpower internally to support the rapidly growing capacitive touch panel business.

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

New product introduction bonus and first sales incentives, which aim at driving the success of new product development and new business, have remained in place and have been paid to certain employees in the first half of 2011.

Prospects

The Group sees potentials for stable growth in the second half of the year, given our efforts in strategic investment and development of new technologies and products. However, we are cautious about the possible impact of the global economy, in view of the weak US economy, lingering European sovereign debt issues and aftermath of the Japan earthquake.

To generate incremental revenue and to expand its customer base, the Group intends to continue delivering new technologically leading ICs and fast turnkey solutions for emerging high-growth applications.

DISPLAY IC BUSINESS

Mobile Display

The Mobile Display business unit provides display driver ICs and touch panel ICs for small to medium size LCD displays. This unit supports key technologies including STN / TFT LCD and capacitive touch panels for monochrome and color displays as well as displays with touch panel functions.

The Group believes there is good market potential for smartphones, tablet PCs and MIDs that come with high definition ("HD"), medium size display and multi-touch functions. A number of the Mobile Display unit's new generation products supporting higher display resolution and bigger display size, including multi-touch capacitive panel controllers for displays ranging from 3" to 12", high-speed display interface controllers and TFT driver controllers for HD displays, are commencing full production soon to tap this growing market.

The Group will also continue its efforts to advance its technology and introduce cutting-edge products to support the next generation of 3D displays.

Advanced Display

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

As the leader in the Passive Matrix OLED ("PMOLED") display IC market, the Group will work with clients in the automotive, industrial and healthcare markets on design-in projects to further diversify and extend the applications of PMOLED display IC to achieve growth.

The Group sees market potential in Active Matrix OLED ("AMOLED") display ICs as well as OLED Lighting. The Group has developed AMOLED display ICs with leading panel makers, and intends to continue extending its technology to support both AMOLED and OLED lighting to capture the anticipated growth of these market segments in coming years.

For the New Display business, the Group maintains a positive view on its growth potential as more applications recognize the value of the new display technology. The overall e-paper display market is expected to remain positive. For electronic shelf labels in particular, the Group has shipped a large volume of new display ICs during the period to cater for the surging demand, and will ramp up its business in this booming market. The Group will continue to enrich the product portfolio of its New Display business and develop new technologies to establish leadership in this emerging market.

Large Display

The Large Display business unit addresses large display applications such as LCD TVs, LCD monitors and notebook computers. The business and product development team in Beijing is working with target customers to qualify its new driver products to be in time for volume shipment this year. The team has also been working actively with the Green Power business unit on LED backlighting to provide total TV display solutions. The business unit is developing new products to support the growing 6G and 8.5G LCD production lines in China.

SYSTEM SOLUTION BUSINESS

Display System Solution

The Display System Solution business unit is a key part of the Group's success in transforming its business from IC component sales to delivering total system solutions. During the period under review, the Group has continued to expand the product offerings of its high-performance MagusCore™ multimedia system solution. Its newly launched system solutions for multimedia products with advanced features, such as HD & 3D, have received good initial market response. In addition, the Group has won a number of design-wins in graphic controller-related products and custom-design IC projects in the advanced 3D glasses product segment.

In the second half of 2011, the Group will continue to promote MagusCore™ to the market, aiming at Android-based applications for 3CC - Converged Communication, Cloud Computing and Consumer Content - enabling more advanced high volume applications such as Android portable media players ("PMP"), eBook readers, MIDs, surveillance devices and smart TVs. During the period under review, the business unit has successfully developed the world's first Android-based GPS tracker, in addition to mobile phone solutions for dual mode and elderly market segments for top-tier mobile brands' products. The business unit will continue its efforts to develop more Android-based solutions to capitalize on these booming market segments.

Green Power

The Green Power business unit focuses on providing energy-saving LED driver ICs and LED power module solutions for LED indoor and outdoor lighting as well as the LED backlighting unit (BLU). It has also developed new high performance constant current driver ICs and modules to provide efficient solutions for offline LED lighting applications. As this business is still at its initial stage of development, there is considerable room for development. The Group will continue ramping up efforts to develop more new products and technologies with a view to capitalizing on this expanding market sector.

Investing in Booming Internet TV Market

The Group entered into a Sale and Purchase Agreement on 9 August 2011 to subscribe for new shares of an IC design company which specializes in the development and sales of multimedia System-on-Chip ("SoC") solutions for Internet TV. The investment is a strategic move aiming to introduce a new product line, Internet TV, as one of the growth engines of the Group. It is expected that this new product line of Internet TV not only would expand the product offerings of the Group and provide total solutions to its customers in TV/large display business, but it also enables the Group to enjoy enhanced cost effectiveness as both parties share a similar set of technology requirements and intellectual property. This new product line is expected to enable the Group to capture the enormous potentials of the surging Internet TV market, and also enhance the Group's overall business development.

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 Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, 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 2011.

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) of the Listing Rules during the course of the director's term of office required to publish an announcement according to Rule 13.51B(2) of the Listing Rules.

Purchase, Sale or Redemption of 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 review period.

Review of Interim Condensed Consolidated Financial Information

The Audit Committee is composed of three INEDs and one NED. The unaudited Condensed Consolidated Interim Financial Information of the Group for the six months ended 30 June 2011 has been reviewed by the Audit Committee of the Company alongside the internal audit team.

The unaudited Condensed Consolidated Interim Financial Information of the Group for the six months ended 30 June 2011 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.

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

Hong Kong, 18 August 2011

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 Joseph Tin Chong.