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SOLOMON SYSTECH

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2878)

2012 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Sales amounted to US$27.6 million
- Gross profit increased by 30% to US$11.6 million
- Gross profit margin increased by around 10 percentage points from 32.5% to 42.2%
- Profit before the results of associated companies was US$0.4 million, recovered from a loss of US$5.1 million for the six months ended 30 June 2011
- Net loss was US$1.8 million
- Basic loss per share was 0.07 US cent (0.58 HK cent)
- Book-to-bill ratio for the six months ended 30 June 2012 was 1.1
- The Board of Directors resolved not to declare any interim dividend for the six months ended 30 June 2012

INTERIM RESULTS

The Directors of Solomon Systech (International) Limited are pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2012 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2012

		Unaudited Six months ended 30 June	
		2012	2011
	Note	**US$'000**	US$'000
Sales	4	**27,569**	27,454
Cost of sales	5	**(15,942)**	(18,534)
Gross profit		**11,627**	8,920
Research and development costs	5	**(7,067)**	(8,348)
Selling and distribution expenses	5	**(1,508)**	(1,759)
Administrative expenses	5	**(4,501)**	(4,130)
Other income		**70**	49
		(1,379)	(5,268)
Finance income – net	6	**1,824**	153
		445	(5,115)
Share of results (include fair value change of derivatives) of associated companies	7	**(2,269)**	(64)
Loss before income tax		**(1,824)**	(5,179)
Income tax expense	8	**(2)**	(2)
Loss attributable to the equity holders of the Company		**(1,826)**	(5,181)
Loss per share attributable to the equity holders of the Company: (expressed in US cent per share)	9		
– Basic		**(0.07)**	(0.21)
– Diluted		**(0.07)**	(0.21)
Dividend	10	**—**	—

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Unaudited Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Loss for the period	**(1,826)**	(5,181)
Other comprehensive loss for the period:		
- Currency translation differences	**(105)**	(341)
Total comprehensive loss attributable to the equity holders of the Company	**(1,931)**	(5,522)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2012

	Note	Unaudited 30 June 2012 US$'000	Audited 31 December 2011 US$'000
ASSETS			
Non-current assets			
Prepaid operating lease		**1,238**	1,253
Property, plant and equipment		**4,921**	5,904
Investments in associated companies		**5,706**	7,533
Available-for-sale financial assets		**2,506**	2,506
Investment in derivatives related to an associated company		—	442
		14,371	17,638
Current assets			
Inventories		**6,567**	7,087
Trade and other receivables	11	**14,412**	9,358
Financial assets at fair value through profit or loss		**40,348**	20,139
Other financial assets		—	2,476
Pledged bank deposits		**130**	130
Short-term fixed deposits		**7,410**	17,976
Cash and cash equivalents		**45,914**	51,660
		114,781	108,826
Total assets		**129,152**	126,464
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**31,658**	31,658
Reserves			
Own shares held		**(129)**	(167)
Others		**83,991**	85,927
Total equity		**115,520**	117,418
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		**5**	7
Bank loan		**526**	572
Deferred income tax liabilities		**50**	50
		581	629
Current liabilities			
Obligations under finance leases		**5**	7
Trade and other payables	12	**11,799**	7,183
Financial liabilities at fair value through profit or loss		**39**	—
Bank loan		**92**	92
Deferred income		**116**	135
Income tax liabilities		**1,000**	1,000
		13,051	8,417
Total liabilities		**13,632**	9,046
Total equity and liabilities		**129,152**	126,464
Net current assets		**101,730**	100,409
Total assets less current liabilities		**116,101**	118,047

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, smart projectors and other smart devices including consumer electronics products, portable devices, industrial appliances and green energy applications such as LED lighting.

The Company was incorporated in the Cayman Islands on 21 November 2003 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. 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 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.

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 on 21 August 2012.

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2012 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 2011, which have been 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 2011, 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.

(a) Amendments to standards effective in 2012

The Group has adopted the following amendments to standards that have been issued and are effective for the Group’s financial year commencing on 1 January 2012:

• HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets
• HKFRS 1 (Amendment)	First-time adoption of HKFRSs - severe hyperinflation and removal of fixed dates for first-time adopters
• HKFRS 7 (Amendment)	Disclosures - transfers of financial assets

The adoption of the above amended HKFRS 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 amendments to standards that are not effective and have not been early adopted by the Group

The following new, revised and amendments to standards have been issued, but not effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
• HKAS 1 (Amendment)	Presentation of items of other comprehensive income	1 July 2012
• HKAS 19 (Revised 2011)	Employee benefits	1 January 2013
• HKAS 27 (Revised 2011)	Separate financial statements	1 January 2013
• HKAS 28 (Revised 2011)	Investments in associates and joint ventures	1 January 2013
• HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities	1 January 2014
• HKFRS 7 (Amendment)	Disclosures - offsetting financial assets and financial liabilities	1 January 2013
• HKFRS 9	Financial instruments	1 January 2015
• 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

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

4. Segment information

The Group has been principally engaged in the design, development and sales of proprietary IC products and system solutions that enabled a wide range of display applications for smartphones, smart TVs, smart projectors and other smart devices including consumer electronics products, portable devices, industrial appliances and green energy applications such as LED lighting.

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

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

Sales

Sales amounted to US$27,569,000 and US$27,454,000 for the six months ended 30 June 2012 and 2011 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, Europe and China.

	Unaudited Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Hong Kong	7,083	9,375
Taiwan	4,960	5,423
Europe	4,880	3,754
China	4,252	1,075
Korea	2,048	4,465
South East Asia	2,254	1,147
Japan	971	1,617
USA	817	460
Others	304	138
	27,569	27,454

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

Total assets

	Unaudited 30 June 2012	Audited 31 December 2011
	US$'000	US$'000
Hong Kong	101,562	98,850
China	16,367	13,925
USA	5,092	7,438
Taiwan	4,803	5,288
Others	1,328	963
	129,152	126,464

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

Capital expenditures

	Unaudited Six months ended 30 June			
	Prepaid operating lease		Property, plant and equipment	
	2012	2011	2012	2011
	US$'000	US$'000	US$'000	US$'000
Hong Kong	—	—	78	313
China	—	36	161	109
South East Asia	—	—	—	126
	—	36	239	548

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	
	2012 US$'000	2011 US$'000
Cost of inventories sold	16,866	17,784
Product engineering costs	1,081	1,643
Provision for/(write-back of provision for) obsolete or slow moving inventories	(1,236)	819
Amortization of the prepaid operating lease	15	12
Depreciation of owned property, plant and equipment	1,224	1,373
Depreciation of leased property, plant and equipment	3	3
Operating leases for land and buildings	648	686
Employee benefit expenses (including Directors' emoluments):		
– Equity compensation	33	147
– Non-equity compensation	8,541	9,483
Net exchange gain	(32)	(597)

6. Finance income – net

	Unaudited Six months ended 30 June	
	2012 US$'000	2011 US$'000
Gain on disposal of FVTPL	23	1
Interest income	714	539
Dividend income	167	152
Net unrealizable gain or loss from financial assets/liabilities at fair value through profit or loss:		
– Fair value gain of financial assets	1,220	155
– Fair value loss of financial assets	(271)	(840)
– Fair value loss of financial liabilities	(39)	—
Interest element of finance leases	—	(1)
Interest expense of bank loan	(6)	(6)
Others	16	153
	1,824	153

To enhance the yield of the cash and cash equivalents, the Group has set aside approximately US$20 million of the cash and appointed bankers for advisory services on investing in a portfolio of marketable fixed income type of financial assets. The portfolios have been built since early March 2012. As at 30 June 2012, almost 100% of the intended investment amounts were invested. During the period, US$161,000 was recognized as realized finance income and US$166,000 net fair value gain was recorded as a result of the net increase in mark-to-market price of the portfolio assets as at the balance sheet date to the condensed consolidated interim income statement.

7. Share of results of associated companies

	Unaudited Six months ended 30 June	
	2012 US$'000	2011 US$'000
Loss of associated companies	1,827	64
Unrealizable fair value loss on derivatives related to an associated company	442	—
	2,269	64

8. Income tax expense

Hong Kong income tax has been provided at the rate of 16.5% (2011: 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 2012 and 2011.

	Unaudited Six months ended 30 June	
	2012 US$'000	2011 US$'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$1,826,000 (2011: US$5,181,000) and the weighted average number of 2,454,575,820 (2011: 2,450,862,633) ordinary shares in issue excluding own shares held during the current period.

Diluted loss per share

The diluted loss per share is calculated based on the Group's 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 2012 and 2011, 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. Hence, there was no dilutive effect on the calculation of the diluted loss per share in both periods.

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

	Number of shares Unaudited Six months ended 30 June	
	2012	2011
Weighted average number of ordinary shares in issue	**2,454,575,820**	2,450,862,633
Allocated own shares held under Share Award Scheme	**1,202,319**	1,642,853
Adjusted weighted average number of ordinary shares for diluted loss per share calculation	**2,455,778,139**	2,452,505,486

10. Dividend

No dividend related to the year ended 31 December 2011 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 2012.

11. Trade and other receivables

	Unaudited 30 June 2012 US$'000	Audited 31 December 2011 US$'000
Trade receivables	**9,854**	6,492
Provision for impairment of receivables	**(147)**	(153)
Trade receivables - net	**9,707**	6,339
Receivables from related parties	**1,695**	57
Deposits, prepayments and other receivables	**2,908**	2,860
Prepayments to related parties	**102**	102
	14,412	9,358

As at 30 June 2012, 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 2012 US$'000	Audited 31 December 2011 US$'000
Current	**7,093**	4,074
1 - 30 days	**2,408**	1,806
31 - 60 days	**123**	449
61 - 90 days	**6**	10
91 - 180 days	**77**	—
181- 365 days	**—**	—
	2,614	2,265
	9,707	6,339

As at 30 June 2012, trade receivables of US$2,614,000 (31 December 2011: US$2,265,000) were considered past due if measured strictly against the credit terms offered. Majority of the overdue sum was not impaired since the most of the overdue sum has been settled after the balance sheet date.

As at 30 June 2012, US$147,000 (31 December 2011: US$153,000) trade receivables was impaired and provided for.

12. Trade and other payables

	Unaudited 30 June 2012 US$'000	Audited 31 December 2011 US$'000
Trade payables	**7,050**	4,114
Payables to related parties	**137**	—
Accrued expenses and other payables	**4,602**	2,863
Accrued expenses and other payables to related parties	**10**	206
	11,799	7,183

As at 30 June 2012, the ageing analysis of trade payables based on overdue days is as follows:

	Unaudited 30 June 2012 US$'000	Audited 31 December 2011 US$'000
Current	**6,406**	3,434
1 - 30 days	**349**	673
31 - 60 days	**172**	2
61 - 90 days	**7**	—
Over 90 days	**116**	5
	7,050	4,114

13. Event after balance sheet date

On 16 August 2012, SSL entered into the Agreement with GT-BJ pursuant to which SSL conditionally agreed to sell and GT-BJ conditionally agreed to acquire the entire 100% ownership of SSBJ at a consideration of CNY41,460,000 (equivalent to approximately US$6,500,000). Completion of the Disposal is conditional upon the satisfactory receipt of the total Consideration in cash within 14 days from the Agreement date and in any cases no later than 45 days from the Announcement date. If the conditions precedent have not been fulfilled within 45 days from the Announcement date or such later date as further agreed by both parties to the Agreement, the Agreement shall be terminated and the parties shall not be bound to proceed with the Disposal except for any antecedent breaches of the Agreement. Upon completion of the Disposal, SSBJ will no longer be treated as a subsidiary of the Group and its financial results will cease to be consolidated into the consolidated financial statements of the Company. The Board believes that the Disposal will not give rise to any material effects on the assets and liabilities and the income statement of the Group. The Group will continue its display business activities in Beijing and PRC through its established offices and sales network.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

For the six months ended 30 June 2012, the Group's sales were US$27.6 million (1H 2011: US$27.5 million), increased by 0.4% year-on-year. The overall market demand was not strong in 1H 2012 due to a cautious outlook for 2012.

Sales and Gross Profit

The Group recorded a 17.6% year-on-year increase in the blended ASP of its products despite a 15% year-on-year decrease in shipment quantity due to the sluggish market demand. The increase in blended ASP was attributed to a change of product mix which included more new products with higher ASP.

Gross profit of the Group was US$11.6 million, up by 30% year-on-year (1H 2011: US$8.9 million) as a result of significant improvement of gross profit margin by close to 10 percentage points to 42.2% for the period from 32.5% in the first half of 2011. The increase was mainly due to a higher percentage of products with higher profit margin contributions, and also the US$1.2 million written on for slow moving inventory with full provision made in prior years, which represented 4.5 percentage points of the Group's sales. The Group has redoubled its efforts to improve its manufacturing productivity through product yield improvement and full utilization of its own manufacturing assets.

Costs and Expenses

The Group has remained vigilant on controlling its expenses. The Group's total expenses, including R&D costs, S&D expenses and administrative expenses, were US$13.1 million, down by US$1.1million, representing a decrease of 8%.

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$7.1million, down 15% year-on-year.

S&D expenses were lowered by 14% from US$1.8 million in the 1H of 2011 to US$1.5 million in the current period.

Administrative expenses were US$4.5 million, increased by US$0.4 million compared with US$4.1 million in 1H 2011. The delta was mainly resulted from the exchange gain of US$0.6 million which reduced the administrative expenses in 1H 2011.

Other Income and Finance Income - Net

During the period under review, the Group recorded an interest income of US$0.7 million as well as dividends and other income of US$0.2 million from FVTPL, totaling US$0.9 million (1H 2011: US$0.7 million). In addition, a net unrealized gain of US$0.9 million (1H 2011 loss: US$0.7 million) was recorded from the investment in the FVTPL portfolio as at 30 June 2012.

Net Profit and Loss

The Group managed to attain a breakeven position for the period ended 30 June 2012 with a profit of US$0.4 million from core businesses before the results of associated companies (1H 2011 loss: US$5.1 million). Having taken into account the US$2.3 million loss resulted from sharing the results of associated companies, the Group recorded a net loss attributable to the Company's equity holders of US$1.8 million (1H 2011: US$5.2 million).

The Board resolved not to declare any interim dividend for the six months ended 30 June 2012.

Liquidity and Financial Resources

Total cash and cash equivalents and bank deposits of the Group amounted to US$53.3 million as at 30 June 2012, compared to US$72.1 million (including other financial assets) as at 31 December 2011. The change in cash position was mainly a result of engaging bankers to help enhancing the yield of cash on hand through investment in marketable fixed income type of financial assets. A corresponding increase of FVTPL by approximately US$20 million should be noted. Net cash generated from operating activities during the period was US$0.3 million (1H 2011: net cash used in operating activities of US$1.1 million). The change was mainly a result of a slight decrease of US$0.2 million in working capital.

Regarding the use of cash reserves, the Group will continue to allocate funds for product development, securing production capacity, strengthening its 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 2012, the Group had no major borrowing other than the US$0.6 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 in operation as the Directors considered this exposure to be insignificant.

Capital Expenditure and Contingent Liabilities

In the 1H of 2012, capital expenditure of the Group was US$0.2 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 2012, US$1.3 million of capital expenditure approved but not contracted for and US$0.9 million capital expenditure contracted but not provided for in respect of the building construction in Beijing, China.

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

BUSINESS PERFORMANCE AND OUTLOOK

BUSINESS PERFORMANCE

The global economic slowdown in the 2H of 2011 has carried over into the 1H of 2012, which has greatly undermined consumer confidence. The market demand in Q1 of 2012 was sluggish in particular owing to the need to deplete the excess inventory accumulated in Q4 last year. The growth momentum in Q2 of 2012 was weighed down to some extent by the cautious economic outlook which led to a weakened demand from customers.

Despite the challenging market conditions, the Group's total sales revenue during the period was US$27.6 million, an increase of 0.4% from the same period last year, even though the unit shipments saw a year-on-year decrease of 15% to approximately 46.0 million units. This was attributed to the Group's strategy of focusing on innovative smart products from the start of 2012 which effectively raised the blended ASP of the Groups' products. This emphasis in smart products also contributed to raising the gross profit margin by about 10 percentage points to 42.2% (1H 2011: 32.5%).

PRODUCT SHIPMENT (BY BUSINESS UNIT)

Units Shipped (million)	1H 2012	1H 2011	Change	2011
Mobile Display	12.7	18.6	(31%)	32.7
Advanced Display	26.7	33.8	(21%)	63.4
Large Display	3.6	-	100%	-
Display System Solution	2.8	1.4	105%	3.0
Green Power	0.2	0.2	(19%)	0.3
Total	**46.0**	**54.0**	**(15%)**	**99.4**

Mobile Display

The key products of the Mobile Display business unit include LCD driver ICs, high speed display interface controllers and capacitive touch panel controller ICs.

During the period, there was a rising demand for the Group's high resolution TFT driver ICs and high speed display interface controllers. The Group closely collaborated with world leading suppliers on design-in projects on new products to capture the growing market. In addition, the Group launched a number of high resolution TFT drivers ICs. The Group also secured design wins for its capacitive touch panel driver ICs, including smartphones, tablets, a touch keyboard as well as LED touch lighting solutions. The Group's high speed display interface controllers have been incorporated into a number of the world's top-tier smartphone models launched into the market, which strengthened the Group's clientele and market outreach.

The unit shipments of Mobile Display products during the period decreased by approximately 31% to 12.7 million units (1H 2011: 18.6 million units) due to declining demand for driver ICs supporting lower resolution (QVGA) devices, and a shortage of panels for tablets which hampered the growth of the Group's capacitive touch panel controller ICs. Considering the penetration of the Mobile Display unit's products into high-end value added applications mentioned above, the Group sees growth potential once the unit's shift of focus to higher-growth high resolution smartphone and tablet applications is fully completed.

Advanced Display

The Advanced Display business unit includes OLED Display and New Display product families which support OLED and e-paper display technologies.

During the period, the e-paper display business saw a satisfactory growth of 13% year-on-year, as the Group successfully secured a number of world-leading electronic shelf label makers as customers and further ramped up its e-paper display business. Apart from electronic shelf labels, the Group continued to enrich its e-paper product portfolio. During the period, the Group secured design wins from new customers and also for new applications, such as smart watches and health care products.

Despite the strong growth in the e-paper display business, the overall unit shipments of Advanced Display products decreased by about 21% to approximately 26.7 million units year-on-year. This was mainly due to a reduction in demand for PMOLED display driver ICs resulting from a shrinking need for applications such as sub-displays of feature phones and MP3 players. The Group has been exploring opportunities to diversify and extend further the applications of PMOLED display ICs to boost growth.

Large Display

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

The Group entered into a master agreement in March 2012 with Nanjing CEC Panda LCD Technology Co., Ltd., an associate of CEC, the substantial shareholder of the Group. The agreement is in relation to the sale of the Group's driver ICs to Panda-LCD with volume shipment starting in April 2012. During the period, a total of approximately 3.6 million units were shipped. The agreement allowed the Group to enrich its customer portfolio and contribute to the sales revenue.

Display System Solution

The Display System Solution business unit delivers total system solutions that can provide high quality image processing functions, multimedia solutions and high-speed interfaces for mobile display devices.

The unit shipments of the Display System Solution business unit surged 105% to approximately 2.8 million units year-on-year. This was mainly attributed to a strong growth in demand for the Group's multimedia processors from the pico-projector and pocket-projector market segments, as well as graphic controllers for advanced 3D active shutter glasses.

The Group garnered additional design wins for display system solutions during the period in pico-projector and pocket-projector applications, as well as an education projector, a smart phone, a digital wireless recording monitor system and a security system, further strengthening its customer portfolio which had already included some of the world's leading brands.

The Group's position in the projector market segment has been further enhanced as the Group jointly developed with The Hong Kong Applied Science and Technology Research Institute the world's first 3D dual-LCoS mini projector. This proprietary product won the Best Lifestyle (Green, Healthy and Creative Living) Gold Award at the Hong Kong ICT Awards in April 2012. This award-winning projector which has incorporated the Group's new multimedia processor in the MagusCore™ family of SoC solutions is expected to be officially launched into the market in the 2H of 2012.

For the smart TV business, C2, a Group-invested associate, started volume shipment of its SoC internet TV solutions during the period which will continue to drive business growth.

Green Power

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

During the period, the Group secured a number of design wins in LED power modules for retrofit lighting, industrial lighting and smart lighting, which further broadened its customer base in emerging market applications. The Group's LED power modules were incorporated into the products of some world-leading brands in LED lighting.

The Green Power business unit shipped approximately 0.2 million units of LED driver ICs and LED power modules during the period, a year-on-year decrease of approximately 19%. The decrease was mainly caused by a delay in unit shipments due to a need to change the specifications of dimmable LED power modules to conform to new market requirements. On the other hand, the Group's power LED modules for spotlight applications saw an increase in demand.

OUTLOOK

The Group's key strategy for 2012 is to focus on high-growth, high-demand product applications including smartphones and tablets, smart TVs and smart devices. The Group will continue to introduce more innovative, high quality products and system solutions, and strive to strengthen market outreach to build success. As at 30 June 2012, the Group registered a backlog of orders at around 27.8 million units for the 2H of 2012. With a book-to-bill ratio of 1.1 for the period, the Group sees potential for growth in the 2H of the year, particularly in high resolution smartphone applications, smart projectors and the e-paper display business. However, the Group is also cautious about the possible impact of the highly volatile global economy, given the unresolved sovereign debt and banking crises in Europe and the expected sluggish growth in the United States.

Smartphones and Tablets

To better capitalize on the growth potential of the smartphone and tablet application markets, the Group has realigned internal resources to set up a Mobile System Solution Centre. The MSSC comprises a team of dedicated staff who provide customized field application engineering services and sales support for smartphone and tablet customers. The goal is to enhance market outreach and drive sales growth.

The Group is also working with leading display module makers to develop new technologies and ICs for ultra high resolution displays and in-cell touch panels, which support high-end smartphones and tablets.

The Group sees market potential in AMOLED display ICs. Thus it is collaborating with leading panel makers in China to develop AMOLED display ICs for smartphone applications, with a view to strengthening the Group's position in the rapidly-growing China smartphone market.

Smart TVs and Projectors

The design wins with leading brands of smart projectors in 2011 and also in the 1H of the year has laid a strong foundation for business, and the Group expects to further increase its unit shipments and extend its customer and geographical reach. It also plans to further enrich its product offerings with 3D display technology.

For the smart TV business, following C2's launch of the first smart TV into the market, the Group expects continued outreach to other brands to enhance the growth of this business.

Smart Devices

Having secured a number of world-leading electronic shelf label makers as customers, the Group is well-prepared to expand further into this growing segment to capture the surging demand. It is launching new products targeting high potential electronic shelf label applications, such as warehouse management.

As a global leader in the PMOLED display IC market, the Group continues to diversify and extend the applications for its PMOLED display ICs to sustain growth. The Group is working closely with clients on design-in projects for smart healthcare devices, portable Wi-Fi routers and set-top boxes.

LED lighting is another key smart device market the Group aims to further penetrate. In addition to ramping up mass production of the new products with the design wins secured, the Group plans to introduce additional smart LED lighting and industrial lighting solutions and technologies. As an example, the Green Power and Mobile Display business units have been working on the development of LED touch lighting solutions.

The Company entered into a Sale and Purchase Agreement with GT-BJ on 16 August 2012 to sell the entire 100% ownership of SSBJ to GT-BJ. This is a strategic move aiming to release the Group from the commitment to spending additional resources to construct an industrial-office building and enable the Group to focus resources on its core businesses. As PRC is an important market for the Group's targeted smart product applications, the Group will continue to drive its businesses in Beijing and the PRC through its established offices and sales network there.

RESEARCH AND DEVELOPMENT

As part of the core strategy of building our strengths in the target product display applications, and paving the way for future growth, the Group has focused on developing related new technologies and also enhancing the features of existing products. During the period, the Group spent approximately US$7.1 million on R&D, representing about 54% of the total expenses and 26% of sales.

Many intellectual properties were developed or under development during the past six months which were targeted at smartphone applications. These include display driver power management, display driver color management and processing, memory compression, touch panel sensing and control, a multi-lane high speed mobile interface as well as an embedded controller.

In the past six months, the Group had three patents granted for the methods and apparatus for operating a touch panel, backlight control and color display enhancement, respectively, and one patent filed for a specialized TFT-LCD driver. The Group had also filed several applications with patent offices in different regions, including the USA, China, Taiwan, Korea and Europe.

As at 30 June 2012, the Group had an R&D workforce of 202, representing approximately 51% of our entire staff. The Group's R&D team continually designs products using various wafer technologies as advanced as 65nm. We also have specialist teams in Hong Kong, Beijing, Shenzhen and Singapore which possess expertise in mixed-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 2012, the Group had a workforce of 400 employees, of whom about 44% was based at the Hong Kong headquarters and the rest was located in China, Japan, Singapore, Taiwan and the USA.

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

New product introduction bonuses and first sales incentives, which aim at driving the success of new product development and new business, remained in place and were paid to certain employees during the 1H of 2012.

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. The Board of the Company trusts that good corporate governance is essential for the growth of the Group and for safeguarding and maximizing shareholders' interests.

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 ("INED") and Non-executive Directors ("NED") are appointed for a specific term, subject to re-election according to the procedures set out in the Company's Articles of Association.

Corporate Governance Codes

The Stock Exchange published its consultation conclusions on the review of the Code on Corporate Governance Practices ("Existing Code") set out in the Appendix 14 of the Listing Rules and associate Rules on 28 October 2011 and renamed the Existing Code as Corporate Governance Code (the "Code"). The revised Code sets out the principle of good corporate governance and two levels of recommendations: (a) Code Provisions and (b) Recommended Best Practices. The revised Code and Rules will be effective in 2012.

The revised Code and Rules will improve transparency, enhance the quality and effectiveness of directors and company secretaries, and bring into sharper focus the important functions of the various board committees.

The Company has complied with all applicable revised Code Provisions throughout the six months ended 30 June 2012.

Compliance with the 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 was made with the Directors and relevant employees and they had complied with the Group's own Guidelines throughout the six months ended 30 June 2012.

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 Condensed Consolidated Interim Financial Information

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

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

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

Hong Kong, 21 August 2012

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.

Definitions and Glossary

Agreement	The Sales & Purchases Agreement dated 16 August 2012 entered into between the SSL and GT-BJ in relation to the Disposal of SSBJ
AMOLED	Active-matrix organic light-emitting diode
Announcement	The announcement made on 16 August 2012 in connection with the discloseable transaction of disposing of SSBJ
ASP	Average selling price
Board	Board of Directors
C2	C2 Microsystems Inc., a company established in the USA
CEC	China Electronic Corporation, a state-owned information technology conglomerate under the administration of the central government of the PRC, a substantial shareholder of the Company
China	Mainland China
Code Provisions	Corporate Governance Code
Consideration	CNY41,46,000 in the form of cash in connection with the Disposal of SSBJ
CNY	Chinese Yuan, Reminbi
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
Disposal	The selling of the entire 100% ownership of SSL in SSBJ
FVTPL	Financial assets at fair value through profit or loss
Group	the Company and its subsidiaries
GT-BJ	Beijing Guotian Investment Limited **北京國田投資有限公司, a company incorporated in PRC with limited liability on 20 April 2012 and whose shareholders are all natural person in PRC
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
Interim Financial Information	Condensed consolidated interim financial information for the six months ended 30 June 2012 of the Group
IC	Integrated circuit
LCD	Liquid crystal display
LED	Light emitting diode
Listing Rules	The Rules Governing the Listing of Securities in the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
MSSC	Mobile Systech Solution Center
OLED	Organic light-emitting diode
Panda-LCD	Nanjing CEC Panda LCD Technology Co., Ltd., an associate of CEC
PMOLED	Passive-matrix organic light-emitting diode
PRC	the People's Republic of China
QVGA	Quarter VGA, refers to screens that have a 320x240 display resolution
R&D	Design, development and engineering
S&D	Selling and Distribution
SoC	System-on-Chip
SSBJ	Solomon Systech (Beijing) Limited, a company incorporated in PRC with limited liability and is the wholly-owned subsidiary of SSL
SSL	Solomon Systech Limited, a company incorporated in Hong Kong with limited liability and is the major operating subsidiary of the Group
TFT	Thin film transistor
TV	Television
the Stock Exchange	The Stock Exchange of Hong Kong Limited
USA	United States of America
US$/USD	US dollars

**for identification purpose only