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

2016 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Sales decreased slightly by about 1% to US$32.9 million
- Gross profit decreased by about 13% to US$10.4 million
- Gross margin was 31.7% (1H 2015: 35.9%), down 4.2 percentage points
- Net loss was US$6.4 million (1H 2015 net profit: US$0.9 million)
- Loss per share was 0.26 US cent (2.00 HK cents)
- Book-to-bill ratio was 1.0 (1H 2015: 1.1)

INTERIM RESULTS

The Directors of Solomon Systech (International) Limited are pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2016 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2016

		Unaudited Six months ended 30 June	
	Note	2016 US$'000	2015 US$'000
Sales	4	32,887	33,386
Cost of sales	5	(22,448)	(21,404)
Gross profit		10,439	11,982
Research and development costs	5	(9,618)	(8,941)
Selling and distribution expenses	5	(1,733)	(1,397)
Administrative expenses	5	(6,296)	(4,390)
Other income		376	68
		(6,832)	(2,678)
Finance income – net	6	66	3,551
		(6,766)	873
Share of results of associated companies		(67)	(12)
Profit/(loss) before income tax		(6,833)	861
Income tax credit/(expenses)	7	451	(2)
Profit/(loss) attributable to the equity holders of the Company		(6,382)	859
Earnings/(loss) per share attributable to the equity holders of the Company: (expressed in US cent per share)	8		
– Basic		(0.26)	0.03
– Diluted		(0.26)	0.03

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Unaudited Six months ended 30 June	
	2016 US$'000	2015 US$'000
Profit/(loss) for the period	(6,382)	859
Other comprehensive income/(loss) for the period:		
Item that may be reclassified to profit or loss		
– Currency translation differences	7	(41)
Total comprehensive income/(loss) attributable to the equity holders of the Company	(6,375)	818

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2016

	Note	Unaudited 30 June 2016 US$'000	Audited 31 December 2015 US$'000
ASSETS			
Non-current assets			
Intangible assets		31	38
Property, plant and equipment		3,244	3,544
Investments in associated companies		485	552
Available-for-sale financial assets		2,206	2,206
Deposit	10	268	225
		6,234	6,565
Current assets			
Inventories		7,517	9,435
Trade and other receivables	10	17,196	18,959
Financial assets at fair value through profit or loss		63,096	62,193
Pledged bank deposits		130	130
Short-term fixed deposits		9,616	9,665
Cash and cash equivalents		12,433	16,434
		109,988	116,816
Total assets		116,222	123,381
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		31,926	31,926
Reserves		70,307	76,556
Total equity		102,233	108,482
LIABILITIES			
Non-current liabilities			
Bank loan		146	187
		146	187
Current liabilities			
Trade and other payables	11	12,900	13,593
Bank loan		83	83
Deferred income		771	494
Income tax		89	542
		13,843	14,712
Total liabilities		13,989	14,899
Total equity and liabilities		116,222	123,381

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. General information

Solomon Systech (International) Limited and its subsidiaries are fabless semiconductor companies specializing in the design, development and sales of proprietary integrated circuits products and system solutions that enable a wide range of display applications for smartphones, smart TVs and other smart devices including consumer electronics products, wearables, portable devices and industrial appliances.

The Company was incorporated in the Cayman Islands on 21 November 2003 as an exempted company with limited liability under Cap.22, the Cayman Islands Companies Law (Law 3 of 1961, as consolidated and revised). The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and the address of its principal office in 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 since 8 April 2004. This condensed consolidated interim financial information is presented in US dollars, unless otherwise stated.

This condensed consolidated interim financial information has been reviewed but not audited, and it was approved for issue on 23 August 2016.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2016 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 2015, which was prepared in accordance with Hong Kong Financial Reporting Standards.

3. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2015, 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 standards and amendments to standards effective in 2016

The Group has adopted the following new standards and amendments to standards that have been issued and are effective for the Group’s financial year commencing on 1 January 2016:

• HKAS 1 (Amendment)	Disclosure Initiative
• HKAS 16 and 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortization
• HKAS 27 (Amendment)	Equity Method in Separate Financial Statements
• HKFRS 10, 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
• HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations
• HKFRS 14	Regulatory Deferral Accounts
• HKFRSs (Amendments)	Annual Improvements 2014

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

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

(b) New standards and amendments to standards that are issued but effective for periods commencing after 1 January 2016

The following new standards and amendments to standards have been issued, but not effective for the financial year beginning 1 January 2016 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKAS 7 (Amendment)	Disclosure Initiative	1 January 2017
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealized Losses	1 January 2017
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019

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

4. Segment information

The Group has principally engaged in the design, development and sales of proprietary IC products and system solutions that enable a wide range of display applications for smartphones, smart TVs and other smart devices including consumer electronics products, wearables, portable devices, and industrial appliances.

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 Chief Executive Officer. 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.

(a) Sales

Sales amounted to US$32,887,000 and US$33,386,000 for the six months ended 30 June 2016 and 2015 respectively.

The Company is domiciled in Hong Kong. The Group mainly operates in Hong Kong. During the period under review, the Group's products were mainly sold to customers located in Taiwan, Hong Kong and China.

	Unaudited Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Taiwan	**12,728**	8,668
Hong Kong	**11,802**	6,139
China	**4,172**	11,752
Europe	**1,693**	3,230
Japan	**1,079**	1,058
Korea	**576**	1,356
South East Asia	**365**	504
USA	**134**	255
Others	**338**	424
	32,887	33,386

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

(b) Total assets

	Unaudited 30 June 2016	Audited 31 December 2015
	US$'000	US$'000
Hong Kong	**92,818**	97,752
China	**18,164**	19,882
Taiwan	**4,474**	4,964
South East Asia	**290**	285
Others	**476**	498
	116,222	123,381

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

(c) Capital expenditures

	Property, plant and equipment Unaudited Six months ended 30 June	
	2016	2015
	US$'000	US$'000
China	**56**	580
Hong Kong	**39**	49
Others	**1**	41
	96	670

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	
	2016 US$'000	2015 US$'000
Cost of inventories sold	**20,341**	20,165
Product engineering costs	**2,422**	2,085
Provision for/(write-back of provision for) obsolete or slow moving inventories	**1,045**	(133)
Amortization of intangible assets	**7**	8
Depreciation of owned property, plant and equipment	**414**	429
Operating leases for land and buildings	**718**	547
Employee benefit expenses (including Directors' emoluments):		
– Equity compensation	**126**	86
– Non-equity compensation	**10,422**	9,957
– Severance & long service expenses	**1,421**	9
Net exchange loss/(gain)	**72**	(32)

6. Finance income – net

	Unaudited Six months ended 30 June	
	2016 US$'000	2015 US$'000
Interest income	**818**	902
Dividend income	**477**	509
Gain/(loss) on disposal of FVTPL	**(553)**	716
Net unrealizable gain or loss from FVTPL:		
– Fair value gain of financial assets	**1,123**	2,055
– Fair value loss of financial assets	**(1,798)**	(628)
Interest expense of bank loan	**(2)**	(3)
Others	**1**	—
	66	3,551

7. Income tax

Hong Kong income tax has been provided at the rate of 16.5% (2015: 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 2016 and 2015.

	Unaudited Six months ended 30 June	
	2016 US$'000	2015 US$'000
Current income tax :		
– Hong Kong	**—**	—
– Overseas	**1**	2
Write-back of income tax provision in prior years	**(452)**	—
Income tax (credit)/expenses	**(451)**	2

8. Earnings/loss per share

Basic earnings/loss per share

The basic earnings/loss per share is calculated based on the Group's profit/loss for the period attributable to the equity holders of the Company and the weighted average number of 2,477,102,351 (1H 2015: 2,467,502,351) ordinary shares in issue during the periods.

The Group's loss for the period attributable to the equity holders of the Company was US$6,382,000 (1H 2015 profit: US$859,000).

Diluted earnings/loss per share

The diluted earnings/loss per share is calculated based on the Group's profit/loss attributable to the equity holders of the Company and the weighted average number of ordinary shares after adjusting for the effects of all dilutive potential ordinary shares during the period.

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

	Number of shares Unaudited Six months ended 30 June	
	2016	2015
Weighted average number of ordinary shares in issue	**2,477,102,351**	2,467,502,351
Conversion of all dilutive share options outstanding[(i)]	—	2,483,384
Adjusted weighted average number of ordinary shares for diluted earnings/loss per share calculation	**2,477,102,351**	2,469,985,735

(i) As at 30 June 2016, there were 31,250,000 share options outstanding which could potentially have a dilutive impact but were anti-dilutive for the period then ended. Hence, there was no dilutive effect on the calculation of the diluted loss per share for the period ended 30 June 2016.

9. Dividend

No dividend for the year ended 31 December 2015 was declared or paid by the Company. In addition, the Board resolved not to declare an interim dividend for the six months ended 30 June 2016.

10. Trade and other receivables

	Unaudited 30 June 2016 US$'000	Audited 31 December 2015 US$'000
Trade receivables	12,511	12,022
Trade receivables from related parties	600	2,629
Total trade receivables - net	13,111	14,651
Deposits, prepayments and other receivables	3,972	4,071
Prepayment to related parties	113	237
Trade and other receivables – current portion	17,196	18,959
Deposit – non-current portion	268	225
	17,464	19,184

As at 30 June 2016, the Group's trade receivables from 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 2016 US$'000	Audited 31 December 2015 US$'000
Current	11,653	10,422
1 – 30 days	1,096	3,545
31 – 60 days	362	527
61 – 90 days	—	85
91 – 180 days	—	36
181 - 365 days	—	36
	1,458	4,229
	13,111	14,651

As at 30 June 2016, trade receivables of US$1,458,000 (31 December 2015: US$4,229,000) were considered past due if measured against the credit terms offered. All the overdue sum was not impaired since most of the overdue sum has been settled after the balance sheet date.

As at 30 June 2016 and 31 December 2015, no trade receivables were impaired and provided for.

11. Trade and other payables

	Unaudited 30 June 2016 US$'000	Audited 31 December 2015 US$'000
Trade payables	7,748	10,029
Accrued expenses and other payables	5,152	3,564
	12,900	13,593

At 30 June 2016, the ageing analysis of trade payables based on overdue days is as follows:

	Unaudited 30 June 2016 US$'000	Audited 31 December 2015 US$'000
Current	7,093	7,227
1 - 30 days	321	2,535
31 - 60 days	254	185
61 - 90 days	—	—
Over 90 days	80	82
	7,748	10,029

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

During the period under review, the Group's total sales were US$32.9 million, with a net loss of US$6.4 million recorded.

Sales and Gross Profit

During the period, the Group achieved a slight increase in total unit shipments of around 2% year-on-year to approximately 84.4 million units (1H 2015: 82.7 million units). Despite a major year-on-year increase in the unit shipments of the Group's mobile display ICs, and a satisfactory rise in the unit shipments of PMOLED display driver ICs together with bistable display driver ICs, the increase in overall unit shipments was small. This was primarily attributable to a significant drop in the unit shipments of the Group's large panel TFT display driver ICs by 76% year-on-year to around 4.0 million units (1H 2015: 17.0 million units), owing to decreased customer demand, and also the fact that new products were slow in achieving design wins to contribute to the overall unit shipments.

The overall book-to-bill ratio of the Group for the period in 2016 was 1.0 (1H 2015: 1.1).

Due mainly to erosion of the average selling price of certain products of the Group under intense price competition, the total sales of the Group decreased by approximately by 1% to around US$32.9 million (1H 2015: US$33.4 million). The reduction in total sales, compounded by a change in the product mix, has resulted in a decrease of the gross margin by 4.2 percentage points to 31.7% (1H 2015: 35.9%). Accordingly, the gross profit of the Group for the period was US$10.4 million (1H 2015: US$12.0 million), decreased by 13% year-on-year.

Costs and Expenses

The Group has remained vigilant in controlling its expenses but as a technology company, it is committed to investing in product R&D and business development. The Group's total expenses, including product R&D costs, S&D expenses and administrative expenses (inclusive of US$1.4 million of severance and long service expenses), were US$17.6 million (1H 2015: US$14.7 million).

The Group remained selective in its product R&D spending. Its product R&D costs were US$9.6 million (1H 2015: US$8.9 million), up US$0.7 million. Product R&D expenses to sales ratio was 29.2% (1H 2015: 26.8%).

S&D expenses increased slightly to US$1.7 million (1H 2015: US$1.4 million). S&D expenses to sales ratio was 5.3 % (1H 2015: 4.2%).

Administrative expenses were US$6.3 million, increased by US$1.9 million compared with US$4.4 million in 1H 2015. The increase was mainly attributed to one-off severance and long service expenses of US$1.4 million as a result of the organizational realignment to focus on products with higher long-term value and to drive greater efficiency under the Group's customer-oriented strategy.

Finance Income - Net

The Group has invested in financial assets as part of its treasury management for interest and dividend income. During the period under review, the Group recorded an interest and dividend income of US$1.3 million (1H 2015: US$1.4 million).

Given the poor market sentiment amid economic uncertainty, a loss on disposal of certain financial assets of US$0.6 million (1H 2015 gain: 0.7 million) was registered.

The Group's financial assets at fair value through profit or loss ("FVTPL Portfolio") is stated at fair value. FVTPL Portfolio traded in active markets is based on quoted market prices at the reporting date. The FVTPL Portfolio at balance sheet date was pursuant to the mark-to-market prices as at 30 June 2016 and a net unrealized loss of US$0.7 million (1H 2015 net unrealized gain: US$1.4 million) was recorded, resulted mainly from the fair value loss of equity securities.

As a result, the Group recorded a breakeven net income of US$0.1 million (1H 2015: US$3.6 million) from treasury investment.

The Group has an internal treasury review team (the "Team") to execute treasury management policy, review the overall investment portfolio and monitor the performance on a regular basis to increase the yield of cash reserves. The Team conducts monthly review teleconferences with individual external portfolio managers and holds monthly internal review meetings to evaluate and monitor the investment performance. Over 80% of the FVTPL were under external portfolio management as at 30 June 2016.

The Group maintains a well-diversified investment portfolio to minimize any financial risks (including market risk, foreign exchange risk and price risk). As at the balance sheet date, 38% (31 December 2015: 38%), 38% (31 December 2015: 35%) and 24% (31 December 2015: 27%) of the FVTPL Portfolio were marketable bonds, marketable funds and equity securities respectively. During the period under review, over 70% of the FVTPL Portfolio were invested in the Asia Pacific market, with the rest in the US, European and other markets. The Group, alongside with external professional portfolio management, held more than 150 individual marketable bonds and equity securities.

With the FVTPL Portfolio maintained as of 30 June 2016, the Group expects a stable stream of interest income to be sustained. As at 31 July 2016 and the Latest Practicable Date, the fair values of the FVTPL Portfolio were up from the fair values at 30 June 2016 by no less than approximately 3%. The change in fair values was primarily driven by the overall stabilizing market subsequent to 30 June 2016.

Net Profit and Loss

The decrease in gross profit and the increase in expenses due to organization realignment, together with the net realizable fair value loss from FVTPL Portfolio which offset most of the financial income, the pretax loss for the six months ended 30 June 2016 was US$6.8 million (1H 2015 profit: US$0.9 million).

Furthermore, there was a reversal of US$0.4 million for a provision of Hong Kong income tax. Accordingly, the loss attributable to the equity holders of the Company for the six months ended 30 June 2016 was US$6.4 million (1H 2015 profit: US$0.9 million).

The Board resolved not to declare an interim dividend for the six months ended 30 June 2016.

Liquidity and Financial Resources

Total cash and cash equivalents and bank deposits of the Group were US$22.0 million as at 30 June 2016, a reduction of US$4.1 million, compared to US$26.1 million as at 31 December 2015. Cash and cash equivalents and bank deposits of the Group were mainly denominated in US dollar and Renminbi.

Net cash used in operating activities during the period was US$2.8 million (1H 2015: US$6.1 million). The cash outflow in operating activities was mainly due to the net loss before income tax of US$6.8 million and the increase in working capital, which comprised net of receivables, inventories and payables, amounted to US$3.5 million.

The Group will continue to allocate funds for product development, securing production capacity, broadening its customer base and capture market and sales opportunities, entering into strategic corporate ventures and meeting general corporate operational purposes. The Group will also continue to execute its treasury management policy to enhance the yield of cash reserves during the period of low interest return. As at 30 June 2016, the Group had no major borrowing other than the US$0.2 million in a mortgage loan, which was denominated in New Taiwan dollars for the purchase of an office property in Hsinchu, Taiwan. The Group's cash balance was mainly invested in various deposits in banks.

Most of the Group's trade receivables and payables are quoted in US dollars. The Group closely monitors the movement of foreign exchange rates and constantly seeks to obtain favorable exchange rates for conversion of US dollars into other currencies for paying local operating expenses. During the period under review, the Group had not used any derivative instruments to hedge against foreign currency exposure in operation, as the Board considered this exposure to be insignificant. However, necessary hedging against foreign currency exposure in Euro was arranged by the external professional portfolio managers for the FVTPL Portfolio in Europe.

Capital Expenditure and Contingent Liabilities

In 1H 2016, capital expenditure of the Group was US$0.1 million (1H 2015: US$0.7 million), of which the majority was related to the Group's purchase of equipment.

As at 30 June 2016, there was US$0.1 million capital expenditure contracted but not provided for. As at 31 December 2015, there was no material capital expenditure contracted but not provided for.

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

BUSINESS REVIEW AND OUTLOOK

Business Review

During the first half of 2016, the Group has implemented a customer-oriented strategy aiming to streamline and optimize resources, and to focus on products with a higher long-term value. The Group's operations have been realigned into two business units, namely Main Display and Advanced Display. The Advanced Display business unit focuses primarily on providing solutions to display devices manufacturers, especially PMOLED and bistable display products for battery-operated applications. The Main Display business unit provides touch control and driver solutions for major LCD panel manufacturers.

During the period under review, the Group recorded a substantial increase in unit shipments by 92% for its mobile display ICs under the Main Display business unit. This was mainly attributable to its new touch display driver IC (TDDI). The unit shipments of PMOLED display driver ICs and bistable display driver ICs under the Advanced Display business unit also achieved a 12% increase. Nonetheless, as the unit shipments of the Group's large panel display driver ICs under the Main Display business unit dropped significantly by 76% mainly because of reduced customer demand, the total unit shipments of the Group was up slightly by around 2% year-on-year to approximately 84.4 million units (1H 2015: 82.7 million units. The total sales of the Group were adversely affected by erosion of the average selling price to register a decrease of approximately 1% to around US$32.9 million.

The Group's unit shipments by business unit during the period under review were as follows:

Units Shipped (million)	1H 2016	1H 2015*	Change	2015
Advanced Display	**64.1**	**57.2**	**+12%**	**131.6**
Main Display	**20.3**	**25.5**	**-20%**	**54.1**
- Mobile Display IC	16.3	8.5	+92%	
- Large Display Driver IC	4.0	17.0	-76%	
Total	**84.4**	**82.7**	**+2%**	**185.7**

* Figures aligned based on the regrouping of product lines resulting from the operational realignment

Advanced Display

The Advanced Display business unit includes PMOLED display and lighting products, as well as bistable products. The growth momentum of the Advanced Display business during 2015 has carried forward to the period under review. The total unit shipments of Advanced Display products recorded an increase of approximately 12% year-on-year to 64.1 million units (1H 2015: 57.2 million units).

The Group's PMOLED display driver ICs have achieved a number of design-wins with world-renowned wearable health and fitness devices. Bistable Display solutions have achieved design-wins for ESLs, and its segment-type EPD solutions have garnered design-wins for applications covering portable health trackers, medical devices and kids' smartphones.

During the period under review, the Group has extended its product portfolio with 8 new solutions developed to capitalize on the growing needs for color support, higher resolution, greater power efficiency, lower production cost, etc.

The Group has also developed a single-chip OLED lighting driver controller IC ready for design-in. It enables ultra-slim form factor designs, greater power efficiency, and smooth dimming control and brightness transition.

Main Display

The Main Display business unit provides mobile display ICs, including integrated touch control and driver ICs targeting smart mobile devices; as well as LCD display driver ICs for large-display products, including TVs, monitors, notebooks, tablet PCs, etc.

During the period under review, the total unit shipments of the Main Display products were approximately 20.3 million units (1H 2015: 25.5 million units), around 20% decrease year-on-year. This was mainly due to a significant reduction in the unit shipments of large display driver ICs.

Mobile Display ICs

The unit shipments of the mobile display ICs during the period under review were approximately 16.3 million units (1H 2015: 8.5 million units), a significant increase of around 92% year-on-year, mainly attributed to the Group's new touch display driver IC (TDDI) for FWVGA In-Cell panels.

TDDI integrates touch sensing and display drivers for optimal touch and display performance. TDDI adoption is a technology trend and has become a *de facto* standard for high-end smart devices. The Group has started mass production of its TDDI for FWVGA panels, and also developed a new TDDI for FHD LTPS In-Cell panels. The Group's new TFT driver IC targeting FHD IGZO LCD panels for narrow bezel smartphones has started to undergo qualification by a major customer.

The Group has commenced shipment of its MIPI bridge ICs for the virtual reality device of a key international brand during the review period. The Group has continued to develop new MIPI bridge ICs supporting displays with higher resolution, higher speed and lower power consumption.

Large Display Driver ICs

The unit shipments of the Company's large panel TFT display driver ICs registered a major decrease of 76% year-on-year to around 4.0 million units (1H 2015: 17.0 million units). This was due mainly to the reduction in demand from the Company's major customer. New products' design-wins were also slow to contribute to the unit shipments.

The Group's new display driver ICs for UHD TV and FHD notebooks have been undergoing qualification by the major customer.

OUTLOOK

Worldwide LCD and OLED production capacity is expected to grow significantly in the coming two years, especially in China. Accompanying this expansion is an increase in demand for TDDI and display driver ICs. The Group, with its new competitive products and new customer penetration efforts, has good opportunities to grow under such favorable market conditions.

Advanced Display

The Group's PMOLED display driver ICs are expected to see mild growth, underpinned by the panel manufacturing capacity expansion of the industry. In addition, the Group has been developing new PMOLED products to address the growing trends of full color display, larger display size, enhanced functional features and power efficiency, as well as component miniaturization.

The applications of the bistable display have been expanding, given its advantages of low power consumption and high readability. The Group has developed new bistable display driver ICs to address the growing demands for multi-color support, higher resolution, larger panel size, better power efficiency, and lower production cost. With the onset of the Internet of Things (IoT) era, strong growth potential is anticipated for smart handheld devices, including smart cards, mobile health trackers, smart home devices, etc. Thus the Group expects to see growth momentum from new applications and new key customers in this segment.

With regard to OLED lighting, the Group's newly-launched driver IC is expected to start design-in during the second half of 2016.

Main Display

The demand for TDDI for FWVGA panels remains strong in the near term. The Group's new TDDI for FHD panels is expected to start pilot shipment at the start of the second half of 2016. FHD TDDI should become a mainstream product in the coming two years, and the Group expects substantial shipment growth from this segment. The Group is starting to develop more TDDI products to support different resolutions.

For virtual reality applications, the Group's new MIPI bridge IC supporting UHD resolution is expected to be launched in the second half of 2016. The Group is also developing more products for virtual reality devices.

For large LCD displays, the Group's new driver ICs for UHD TV and FHD notebooks may start mass production in the second half of 2016 upon completion of qualification by the customer. The Group is also introducing new drivers for notebook and monitor applications in the second half of 2016. The Group is expecting good growth of its large display driver ICs, given the design-wins achieved by new products, new customer development and expansion of the market.

Looking ahead, the Group will strive to capture the growth opportunities upcoming by capitalizing on the high growth application segments, developing more competitive new products and enhancing new customer penetration and market penetration. In addition, the Group will also continue to explore opportunities for strategic investment aiming to further broaden its customer base and enhance its competitiveness to boost growth.

PRODUCT DEVELOPMENT

As part of the core strategy of building our strengths in the priority target of product display applications, and paving the way for future growth, the Group has focused on developing related new technologies and also enhancing the features of existing products. During the period under review, the Group has invested approximately US$9.6 million on R&D, representing about 55% of total expenses and 29% of sales.

A number of innovative solutions have been developed or are under development during the past six months. During the period under review, the Group has filed more than 10 patent applications in different jurisdictions. The Group has successfully obtained two patents, one for touch scheme and the other for display scheme.

The Group's R&D team possesses leading-edge domain expertise in various areas to enable fast fulfilment of customers' sophisticated specifications. The Group has adopted advanced wafer technologies to address the challenges of increasingly higher resolution and lower power consumption requirements in mobile consumer end products.

HUMAN RESOURCES

As of 30 June 2016, the Group had a total workforce of 382 (431 as of 31 December 2015) employees, of whom about 62% engaged in product R&D engineering work. The reduction in total workforce was a result of the organizational realignment to focus on products with a higher long-term value and to drive greater efficiency under the Group's customer-oriented strategy. About 51% of the workforce were based at the Hong Kong headquarters, with the rest located in China, Japan, Singapore and Taiwan.

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

CORPORATE GOVERNANCE AND SUPPLEMENTARY INFORMATION

Compliance with Corporate Governance Code

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

The Company has complied with all the applicable Code Provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2016.

In compliance with Code Provision A.2.1 of the Code to separate the roles of chairman and chief executive of the Company, on 4 January 2016, Dr. Leung Kwong Wai ("Dr. Leung"), the then Chairman of the Board, CEO of the Group and Managing Director of the Company, ceased to be CEO of the Group and Managing Director of the Company, and Dr. Yeh Tsuei Chi ("Dr. Yeh") was appointed as CEO of the Company. Dr. Leung retired by rotation as Director at the conclusion of the AGM on 7 June 2016, and Mr. Li Rongxin, a Non-Executive Director of the Company, has been appointed as the Chairman of the Board effective 7 June 2016, replacing Dr. Leung.

Compliance with the Model Code

The Company has its own written guidelines on securities transactions by Directors and relevant employees on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all Directors, and all Directors have confirmed that they have been in compliance with such guidelines during the six months ended 30 June 2016.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 30 June 2016.

Review of Condensed Consolidated Interim Financial Information

The Audit Committee is composed of two Independent Non-executive Directors and one Non-executive Director. The unaudited condensed consolidated interim financial information has been reviewed by the Audit Committee of the Company alongside the management.

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

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

All the interim financial and other related information of the Group required by the Listing Rules has been published on the Stock Exchange's website (*www.hkexnews.hk*) and the Company's website (*www.solomon-systech.com*) on 23 August 2016.

On behalf of the Board
Solomon Systech (International) Limited
YEH Tsuei Chi
Chief Executive Officer

Hong Kong, 23 August 2016

As at the date of this announcement, the Board comprises: (a) Executive Directors – Dr. Yeh Tsuei Chi (Chief Executive Officer) and Mr. Lo Wai Ming; (b) Non-executive Directors – Mr. Li Rongxin (Chairman), Dr. Li Jun and Mr. Zhao Guiwu; and (c) Independent Non-executive Directors – Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Mr. Yiu Tin Chong, Joseph.

Definitions and Glossary

Board	Board of Directors
China	Mainland China
Code Provision(s)	Code provision(s) in the Corporate Governance Code contained in Appendix 14 to the Listing Rules
Company	Solomon Systech (International) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
Director(s)	The director(s) of the Company
EPD	Electrophoretic Display
ESL	Electronic Shelf Label
FHD	Full High Definition, a display resolution standard of 1920 x 1080 pixels
FVTPL	Financial assets at fair value through profit or loss
FWVGA	Full Wide Video Graphics Array, a display resolution spec of 854 x 480 pixels
Group	The Company and its subsidiaries
HK$/HKD	Hong Kong dollars
HKAS	Hong Kong Accounting Standards
HKFRS	Hong Kong Financial Reporting Standards, or collectively for HKAS and Hong Kong Financial Reporting Standards
Hong Kong/HK/HKSAR	Hong Kong Special Administrative Region
IC	Integrated Circuit
IGZO	A semiconductor material consisting of indium (In), gallium (Ga), zinc (Zn) and oxygen (O)
Latest Practicable Date	18 August 2016, being the date of Audit Committee Meeting held prior to the date of this announcement
LCD	Liquid Crystal Display
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
LTPS	Low Temperature Polysilicon, a technology for the manufacturing of TFT-LCD
MIPI	Mobile Industry Processor Interface
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
OLED	Organic Light Emitting Diode
PMOLED	Passive Matrix Organic Light Emitting Diode
PRC	The People's Republic of China
R&D	Product Design, development and engineering
S&D	Selling and Distribution
the Stock Exchange	The Stock Exchange of Hong Kong Limited
TFT	Thin Film Transistor
UHD	Ultra high definition (UHD or 4K/8K) is a display resolution standard of at least 3840 x 2160 pixels (8.3 megapixels; 4K)
USA/US	United States of America
US$	US dollars