SOLOMON
SYSTECH

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

2017 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Sales increased by about 18% to US$38.6 million
- Gross profit increased by about 41% to US$14.7 million
- Gross margin was 38.1% (1H 2016: 31.7%), up 6.4 percentage points
- Net loss was US$5.6 million (1H 2016: US$6.4 million)
- Loss per share was 0.23 US cent (1.74 HK cents)
- Book-to-bill ratio was 1.1 (1H 2016: 1.0)

INTERIM RESULTS

The Directors of Solomon Systech (International) Limited announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2017

		Unaudited Six months ended 30 June	
	Note	**2017** **US$'000**	2016 US$'000
Sales	4	**38,637**	32,887
Cost of sales	5	**(23,926)**	(22,448)
Gross profit		**14,711**	10,439
Research and development costs	5	**(16,275)**	(9,618)
Selling and distribution expenses	5	**(1,571)**	(1,733)
Administrative expenses	5	**(6,004)**	(6,296)
Other income		**1,084**	376
		(8,055)	(6,832)
Finance income – net	6	**2,496**	66
		(5,559)	(6,766)
Share of results of associated companies		**(62)**	(67)
Loss before income tax		**(5,621)**	(6,833)
Income tax credit	7	**14**	451
Loss for the period		**(5,607)**	(6,382)
Loss for the period attributable to :			
– Equity holders of the Company		**(5,577)**	(6,382)
– Non-controlling interests		**(30)**	-
		(5,607)	(6,382)
Loss per share attributable to the equity holders of the Company: (expressed in US cent per share)	8		
– Basic		**(0.23)**	(0.26)
– Diluted		**(0.23)**	(0.26)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June	
	2017 **US$'000**	2016 US$'000
Loss for the period	**(5,607)**	(6,382)
Other comprehensive income for the period:		
Item that may be reclassified to profit or loss		
– Currency translation differences	**138**	7
Total comprehensive loss for the period	**(5,469)**	(6,375)
Total comprehensive loss for the period attributable to :		
– Equity holders of the Company	**(5,439)**	(6,375)
– Non-controlling interests	**(30)**	-
	(5,469)	(6,375)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
As at 30 June 2017

	Note	Unaudited 30 June 2017 US$'000	Audited 31 December 2016 US$'000
ASSETS			
Non-current assets			
Intangible assets		16,850	16,740
Property, plant and equipment		3,998	3,223
Goodwill	10	2,317	-
Investments in associated companies		431	493
Available-for-sale financial assets		2,206	2,206
Prepayments and deposits	11	337	661
Financial assets at fair value through profit or loss		874	-
		27,013	23,323
Current assets			
Inventories		13,533	13,053
Trade and other receivables	11	17,919	17,514
Financial assets at fair value through profit or loss		33,458	36,985
Pledged bank deposits		130	130
Short-term fixed deposits		4,299	727
Cash and cash equivalents		20,111	23,830
		89,450	92,239
Total assets		116,463	115,562
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		31,939	31,926
Reserves		63,853	69,073
Shareholders' funds		95,792	100,999
Non-controlling interests		717	-
Total equity		96,509	100,999
LIABILITIES			
Non-current liabilities			
Bank loan		67	107
Deferred income tax liability		392	-
		459	107
Current liabilities			
Trade and other payables	12	18,795	13,759
Bank loan		263	86
Deferred income		348	522
Income tax		89	89
		19,495	14,456
Total liabilities		19,954	14,563
Total equity and liabilities		116,463	115,562

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 display and touch integrated circuits products and system solutions that enable a wide range of display and touch applications for smartphones, tablets, TVs/monitors, notebooks and other smart devices, including wearables, healthcare devices, smart home devices, as well as industrial appliances, etc.

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 10008, Willow House, Cricket Square, Grand Cayman, KY1-1001, 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 22 August 2017.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2017 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 2016, 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 2016, as described in those annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) Amendments to standards effective in 2017

The Group has adopted the following new amendments to standards that have been issued and are effective for the Group’s financial year commencing on 1 January 2017:

HKAS 7 (Amendment)	Statement of Cash Flows - Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealized Losses
HKFRS 12 (Amendment)	Disclosure of Interest in Other Entities

The adoption of the above 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, amendments to standards and interpretations that are issued but effective for periods commencing after 1 January 2017

The following new standards, amendments to standards and interpretations have been issued, but not effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures	1 January 2018
HKFRS 1 (Amendment)	First Time Adoption of HKFRS	1 January 2018
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
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
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019

The Group has already commenced an assessment of the impact of the above new standards, amendments to standards and interpretations but is not yet in a position to state whether these new standards, amendments to standards and interpretations 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 and touch applications for smartphones, tablets, TVs/monitors, notebooks and other smart devices, including wearables, healthcare devices, smart home devices, as well as 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$38,637,000 and US$32,887,000 for the six months ended 30 June 2017 and 2016 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, China and Korea.

	Unaudited Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Hong Kong	**10,517**	11,802
Taiwan	**9,910**	12,728
Korea	**5,323**	576
China	**4,515**	4,172
Europe	**3,271**	1,693
Japan	**2,837**	1,079
South East Asia	**1,593**	365
USA	**194**	134
Others	**477**	338
	38,637	32,887

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

(b) Total assets

	Unaudited 30 June	Audited 31 December
	2017	2016
	US$'000	US$'000
Hong Kong	**79,146**	84,589
China	**20,399**	18,462
Taiwan	**8,536**	6,656
Korea	**6,253**	859
UK	**1,790**	1,265
South East Asia	**131**	3,604
Others	**208**	127
	116,463	115,562

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

(c) Capital expenditures

	Unaudited Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Intangible assets		
Korea	**1,896**	-
	1,896	-
Property, plant and equipment		
UK	**547**	-
China	**330**	56
Taiwan	**250**	-
Korea	**29**	-
Hong Kong	**29**	39
Others	**1**	1
	1,186	96
	3,082	96

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	
	2017 US$'000	2016 US$'000
Cost of inventories sold	**21,865**	20,341
Product engineering costs	**2,565**	2,422
Provision for obsolete or slow moving inventories	**1,475**	1,045
Amortization of intangible assets	**1,786**	7
Depreciation of owned property, plant and equipment	**510**	414
Operating leases for land and buildings	**988**	718
Employee benefit expenses (including Directors' emoluments):		
– Equity compensation	**191**	126
– Non-equity compensation	**15,007**	10,422
– Severance & long service expenses	**67**	1,421
Net exchange loss	**309**	72

6. Finance income – net

	Unaudited Six months ended 30 June	
	2017 US$'000	2016 US$'000
Interest income	**454**	818
Dividend income	**189**	477
Gain/(loss) on disposal of FVTPL	**461**	(553)
Net unrealized gain/(loss) from FVTPL	**1,393**	(675)
Interest expense of bank loan	**(1)**	(2)
Others	**—**	1
	2,496	66

7. Income tax

Hong Kong income tax has been provided at the rate of 16.5% (2016: 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 2017 and 2016.

	Unaudited Six months ended 30 June	
	2017 US$'000	2016 US$'000
Current income tax :		
– Hong Kong	**—**	—
– Overseas	**3**	1
Write-back of income tax provision in prior years	**—**	(452)
Deferred income tax	**(17)**	—
Income tax credit	**(14)**	(451)

8. Loss per share

(a) Basic loss per share

The basic loss per share is calculated based on the Group's loss for the period attributable to the equity holders of the Company and the weighted average number of 2,477,597,379 (1H 2016: 2,477,102,351) ordinary shares in issue during the period.

The Group's loss for the period attributable to the equity holders of the Company was US$5,577,000 (1H 2016: US$6,382,000).

(b) 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 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	
	2017	2016
Weighted average number of ordinary shares in issue	**2,477,597,379**	2,477,102,351
Conversion of all dilutive share options outstanding(i)	**—**	—
Adjusted weighted average number of ordinary shares for diluted loss per share calculation	**2,477,597,379**	2,477,102,351

(i) As at 30 June 2017, there were 37,750,000 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 2017.

9. Dividend

No dividend for the year ended 31 December 2016 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 2017.

10. Business combinations

On 22 February 2017, the Group acquired 52% of the issued shares and a call option to acquire the remaining 48% of the equity interests in Sentron, Inc., a company that is a design and development house of ICs for display applications, for a consideration of US$4,000,000. The acquisition is expected to increase the Group's market share by product developments.

The goodwill of US$2,317,000 arises from a number of factors, including expected synergies through combining a highly skilled workforce, achieving greater production efficiencies through knowledge transfer, and unrecognised assets such as the workforce. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for Sentron, Inc., and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	Note	Unaudited 22 February 2017 US$'000
Cash paid		4,000
Less: Fair value of call option over non-controlling interests	a	(874)
Total consideration		3,126
Recognised amounts of identifiable assets acquired and liabilities assumed		
– Intangible assets		1,896
– Property, plant and equipment		19
– Cash and cash equivalents		33
– Trade and other receivables		264
– Inventories		13
– Trade and other payables		(86)
– Deferred income tax liabilities		(409)
– Bank loan		(174)
Total identifiable net assets		1,556
Non-controlling interests	b	(747)
Goodwill		2,317
Total consideration		3,126
Acquisition-related costs (included in administrative expenses in the interim condensed consolidated income statement the period ended 30 June 2017)		75
Net cash outflow on acquisition		
Cash paid		4,000
Less: Cash and cash equivalents acquired		(33)
		3,967

(a) Call option over non-controlling interests

Pursuant to the share purchase agreement entered into between the Group and the shareholders of Sentron, Inc., the Group was granted a call option to acquire part or all of the remaining 48% equity interest in Sentron, Inc. The call option is divided into four batches, each representing 12% equity interests in Sentron, Inc. Each of the four batches would become exercisable after the years ending 31 December 2018, 2019, 2020 and 2021, respectively. The exercise price of each batch would be determined based on the performance targets for the respective financial years and the total consideration for the remaining 48% equity interests is capped at US$4,000,000.

The fair value of the call option was determined by using the Monte Carlo simulation model with the following key assumptions:

	Unaudited 30 June 2017
Risk-free interest rate	1.55%-1.85%
Volatility	50%
Dividend yield	0%
Price to sales ratio	0.99
Expected option life (year)	1.5-4.5

(b) Non-controlling interests

The non-controlling interests were recognised at their proportionate share of the recognized amounts of identifiable net assets in Sentron, Inc.

(c) Revenue and profit contribution

Sentron, Inc. contributed no revenues and net loss of US$344,000 to the Group since acquisition date. If the acquisition had occurred on 1 January 2017, consolidated revenue and consolidated loss for the six months ended 30 June 2017 would have been nil and US$522,000 respectively.

11. Trade and other receivables

	Unaudited 30 June 2017 US$'000	Audited 31 December 2016 US$'000
Trade receivables	**13,366**	13,171
Trade receivables from related parties	**976**	1,465
Trade receivables - net	**14,342**	14,636
Deposits, prepayments and other receivables	**3,466**	2,595
Prepayments to related parties	**111**	283
Trade and other receivables – current portion	**17,919**	17,514
Prepayments and deposits – non-current portion	**337**	661
	18,256	18,175

As at 30 June 2017, 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 2017 US$'000	Audited 31 December 2016 US$'000
Current	**10,515**	10,751
1 – 30 days	**2,791**	3,592
31 – 60 days	**693**	293
61 – 90 days	**343**	—
	3,827	3,885
	14,342	14,636

As at 30 June 2017, trade receivables of US$3,827,000 (31 December 2016: US$3,885,000) 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 2017 and 31 December 2016, no trade receivables were impaired and provided for.

12. Trade and other payables

	Unaudited 30 June 2017 US$'000	Audited 31 December 2016 US$'000
Trade payables	**12,451**	8,398
Other payables to related parties	**3**	55
Accrued expenses and other payables	**6,341**	5,306
	18,795	13,759

As at 30 June 2017, the ageing analysis of trade payables based on overdue days is as follows:

	Unaudited 30 June 2017 US$'000	Audited 31 December 2016 US$'000
Current	**11,384**	7,006
1 — 30 days	**509**	1,096
31— 60 days	**367**	178
61 — 90 days	**—**	28
Over 90 days	**191**	90
	12,451	8,398

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

During the period under review, the Group achieved a satisfactory growth rate of 18% in revenue to US$38.6 million (1H 2016: US$32.9 million), mainly due to new business operations and an increase in the general average selling price of the Group's products. The overall book-to-bill ratio of the Group for the period in 2017 was 1.1 (1H 2016: 1.0).

With these favorable factors, there was a big increment in both gross profit (US$14.7 million) and gross margin (38.1%) recorded in the six months ended 30 June 2017 (1H 2016: US$10.4 million and 31.7% respectively).

Both S&D expenses (US$1.6 million) and administrative expenses (US$6.0 million) were maintained at a comfortable level and recorded a slight drop from the corresponding period in 2016.

Being a technology company, the Group is committed to investing in product R&D and business development. Although the Group remained selective in its product R&D spending, because of the new business operations and products, its R&D costs during the period under review surged to US$16.3 million (mainly staff costs and amortization of intangible assets), compared to US$9.6 million in the same period last year, representing an approximately 69% jump.

For the six months ended 30 June 2017, a net finance income (US$2.5 million) was derived from the various investment portfolios of the Group, comprising bank interests, dividends from securities, disposal gains on FVTPL investments and mark-to-market gain on financial assets, in contrast to a breakeven position in the first half year period in 2016 (1H 2016: US$0.1 million).

As a result of the aforesaid elements, the Group has reported a net loss attributable to the Company's equity holders of US$5.6 million (1H 2016: US$6.4 million). The Board resolved not to declare an interim dividend for the six months ended 30 June 2017.

Liquidity and Financial Resources

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$0.6 million (1H 2016: US$1.3 million)

Given the fair market sentiment, a gain on disposal of certain financial assets of US$0.5 million (1H 2016 loss: US$0.6 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 2017 and a net unrealized gain of US$1.4 million (1H 2016 net unrealized loss: US$0.7 million) was recorded, resulted mainly from the fair value gain of equity securities.

As a result, the Group recorded a satisfactory net finance income of US$2.5 million (1H 2016: US$0.1 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 regular review meetings or teleconferences with individual external portfolio managers and holds internal review meetings to evaluate and monitor the investment performance. The majority of the FVTPL were under external professional portfolio management as at 30 June 2017.

Total cash and cash equivalents and bank deposits of the Group were US$24.5 million as at 30 June 2017, a slight reduction of US$0.2 million, compared to US$24.7 million as at 31 December 2016. Cash and cash equivalents and bank deposits of the Group were mainly denominated in US dollar and Renminbi.

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 2017, the Group had no major borrowing other than the US$0.1 million in a mortgage loan, which was denominated in New Taiwan dollars for the finance of an office property in Hsinchu, Taiwan and the revolving bank credit lines of a Korean subsidiary for working capital financing amounting to US$0.2 million denominated in Korean Won. 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 2017, capital expenditure of the Group was US$3 million (1H 2016: US$0.1 million), of which the majority was related to the equipment purchased and patents acquired in business combination.

As at 30 June 2017, there was US$0.4 million capital expenditure contracted but not provided for (31 December 2016: US$0.3 million).

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 2017, the Group recorded an increase in revenue of around 18% year-on-year to US$38.6 million, mainly attributable to the strategies adopted in 2016 which enhanced business growth and development. These strategies included the restructuring of the Group's core business operations to streamline and optimize resources, and to focus on products with a higher long-term value; the purchase of the market-leading maXTouch® touchscreen technology assets and products from Microchip to strengthen technology and product portfolios; and also achieve synergistic effects with the Group's current technologies, including In-Cell Touch and Display Driver Integration (TDDI) ; and the establishment of the new technology center in the UK to reinforce technological capabilities and enhance new product development. Successful execution of these strategies has laid a strong groundwork for growth amidst the challenging market and competitive industry environment.

During the period under review, the Group has launched a total of 8 new products, and set up new technology centers in Korea and Taiwan, in addition to the existing technology centers in Hong Kong, Japan, Shenzhen and the UK. The Group has also started preparations to establish the Nanjing Technology Center (NJTC) in China scheduled to open in the second half of 2017. The NJTC is intended to further enhance relationships with key customers and business partners, and most importantly, to drive business development in China, the Group's major market. Despite the increase in R&D costs attributed to the new business operations and for developing new products, the Group is well equipped to capture the upcoming business opportunities.

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

Sales (US$ million)	1H 2017	1H 2016	Change	2016 Full Year
Main Display	20.0	15.3	+31%	31.6
Advanced Display	18.6	17.6	+6%	36.8
Total	38.6	32.9	+18%	68.4

Main Display

The Main Display Business Unit ("MDBU") provides TDDI IC, On-Cell and Out-Cell touchscreen controller ICs, TFT LCD display driver ICs and MIPI bridge ICs targeting smart mobile devices; as well as TFT LCD display driver ICs for large-display products, including TVs, monitors, notebooks, tablet PCs, etc.

During the period under review, the total sales of the MDBU amounted to US$20.0 million (1H 2016: US$15.3 million), an increase of approximately 31% year-on-year. This was mainly attributed to the additional revenue contribution from the newly purchased maXTouch® touchscreen controller ICs which have garnered design wins and design-in projects with key international brands.

The Group's TDDI IC for FWVGA panels has continued to generate revenue for the MDBU. The Group has been developing new TDDI ICs with a view to capturing the growing trend of bezel-less smartphones. The Group's display driver IC for HD IGZO panels has started pilot production.

The Group's MIPI bridge ICs have captured design wins including a leading international notebook brand. In terms of large panel display driver ICs, the demand from the Group's major customer has started to pick up slightly during the review period.

Advanced Display

The Advanced Display Business Unit ("ADBU") includes PMOLED displays and OLED lighting products, as well as bistable products. In addition to standard ICs, the ADBU also provides custom IC design services, including analog, mixed-signal and high-voltage IC designs to cater to the specific needs of customers.

The growth momentum of the Advanced Display business during 2016 has carried forward to the period under review, with the total sales increasing around 6% year-on-year to US$18.6 million (1H 2016: US$17.6 million).

The Group's PMOLED display driver ICs continued to capture the surging market of wearables, and garnered design-wins with a number of world-renowned brands. The Group has also achieved design-wins and engaged in design-in projects for other applications, in particular set-top boxes, smart home appliances and healthcare devices.

In terms of its bistable display business, the Group has managed to enhance its relationship and has collaborated closely with module manufacturers and independent design houses helping to improve its business performance during the review period. The Group has achieved design-wins for custom ICs for ESLs, while extending applications to scoreboards and logistics tags. The Group's segment-type EPD solutions have also garnered design-in projects for keyboards.

OUTLOOK

The anticipated positive outlook for key application markets, in particular wearables, ESLs, and smart handheld devices, should provide good business opportunities for the Group's array of new, high performance products.

In addition, as a result of the restructuring initiatives in 2016, the Group foresees positive changes taking root in the second half of 2017. Its international R&D team, comprising local experts from regional technology centers, together with the strengthened product and technology portfolios, forms a strong backbone for driving technology innovation and new product development to boost business growth. The favorable book-to-bill ratio of 1.1 is also a positive indicator of future growth.

Main Display

In the immediate future, the Group plans to strive to achieve more design wins with its maXTouch® touchscreen solutions supporting AMOLED, In-Cell and also On-Cell display panels. More panel makers are said to be focusing their efforts on increasing supply capacity for curved and flexible AMOLED displays. Many smartphone brands are also planning to apply flexible AMOLED displays to their high-end product lines. The Group is further enhancing its development of new touch controller ICs supporting this advanced technology, which is believed will define the next generation displays.

In terms of LCD panel technology, the Group has been actively engaged in outreach to prospective customers, and aims to start mass production of its TDDI IC for FHD panels in the second half of 2017.

Moreover, the Group has started to develop other new TDDI ICs to cater to the industry trend of high-end smartphones with a bezel-less frame and an 18:9 screen aspect ratio.

Ongoing market penetration of UHD LCD TVs will likely boost the demand for display driver ICs for large high resolution displays, while the establishment of the Nanjing Technology Center in the second half of 2017 is expected to strengthen the Group's R&D and supporting capability in China.

Advanced Display

Underpinned by the expansion of the panel manufacturing capacity alongside the strong momentum of the wearables market, the Group's PMOLED display driver IC business is expected to continue its growth trend into the second half of 2017. The Group has also been developing new products supporting higher resolution color displays, and has been extending its reach to application markets with good prospects, including smart home appliances and smart watches.

The ESL market continues to be a key target of the Group's bistable display driver ICs, in particular the larger displays with higher resolution; along with other new applications boosted by the onset of the Internet of Things (IoT) era.

PRODUCT DEVELOPMENT

Product development has always been the cornerstone of the Group's business. To differentiate itself from the competition and pave the way for future growth, the Group has invested heavily in R&D to develop new products and to enhance the features of existing products. During the period under review, the Group has invested approximately US$16.3 million on R&D, representing about 68% of total expenses and 42% of sales.

HUMAN RESOURCES

As of 30 June 2017, the Group had a total workforce of 430 employees*. About 43% of the workforce were based at the Hong Kong headquarters, with the rest located in China, Japan, Korea, Taiwan and the UK.

* Data excludes the manufacturing subsidiary in China

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 2017.

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 2017.

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 2017.

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 22 August 2017.

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

Hong Kong, 22 August 2017

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

AMOLED	Active Matrix Organic Light Emitting Diode
Board	Board of Directors
CEC	China Electronics Corporation, a state-owned information technology conglomerate under the administration of the central government of the PRC, is a substantial shareholder of the Company
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
EDP	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 standard of 854 x 480 pixels
Group	The Company and its subsidiaries
HD	High Definition, a display resolution of 1280 x 720 pixels
HKAS	Hong Kong Accounting Standards
HK$/HKD	Hong Kong dollars
HKFRS	Hong Kong Financial Reporting Standards, or collectively for HKAS and Hong Kong Financial Reporting Standards
Hong Kong/HK/HKSAR	Hong Kong Special Administrative Region
IC	Integrated Circuit
IGZO	A semiconductor material consisting of indium (In), gallium (Ga), zinc (Zn) and oxygen (O)
LCD	Liquid Crystal Display
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
MIPI	Mobile Industry Processor Interface
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
OLED	Organic Light Emitting Diode
PMOLED	Passive Matrix Organic Light Emitting Diode
PRC	The People's Republic of China
R&D	Product design, development and engineering
S&D	Selling and Distribution
SFO	Securities and Futures Ordinance
the Stock Exchange	The Stock Exchange of Hong Kong Limited
TFT	Thin Film Transistor
UHD	Ultra high definition (UHD or 4K/8K) is a display resolution standard of at least 3840 x 2160 pixels (8.3 megapixels; 4K)
USA/US	United States of America
US$	US dollars

** for identification purpose only