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

2018 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Sales increased by about 18% to US$45.7 million
- Gross profit stayed flat at US$14.6 million
- Gross margin was 32.0% (1H 2017: 38.1%)
- Net loss was US$6.3 million (1H 2017: US$5.6 million)
- Loss per share was 0.25 US cent (1.94 HK cents)
- Book-to-bill ratio was 1.1 (1H 2017: 1.1)

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 2018 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2018

		Unaudited Six months ended 30 June	
	Notes	**2018 US$'000**	2017 US$'000
Sales	4	**45,685**	38,637
Cost of sales	5	**(31,067)**	(23,926)
Gross profit		**14,618**	14,711
Research and development costs	5	**(16,578)**	(16,275)
Selling and distribution expenses	5	**(2,037)**	(1,571)
Administrative expenses	5	**(6,609)**	(6,004)
Other income		**1,936**	1,084
		(8,670)	(8,055)
Finance income – net	6	**2,147**	2,496
		(6,523)	(5,559)
Share of results of associates		**93**	(62)
Loss before tax		**(6,430)**	(5,621)
Income tax credit	7	**114**	14
Loss for the period		**(6,316)**	(5,607)
Attributable to:			
- Equity holders of the Company		**(6,266)**	(5,577)
- Non-controlling interests		**(50)**	(30)
		(6,316)	(5,607)
Loss per share attributable to the equity holders of the Company: (expressed in US cent per share)	8		
- Basic		**(0.25)**	(0.23)
- Diluted		**(0.25)**	(0.23)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000
Loss for the period	**(6,316)**	(5,607)
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
- Exchange differences arising on translation of foreign operations	**569**	138
Total comprehensive loss for the period	**(5,747)**	(5,469)
Attributable to:		
- Equity holders of the Company	**(5,697)**	(5,439)
- Non-controlling interests	**(50)**	(30)
	(5,747)	(5,469)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
As at 30 June 2018

	Notes	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
NON-CURRENT ASSETS			
Intangible assets		17,771	19,841
Property, plant and equipment		5,461	5,084
Investments in associates		608	515
Available-for-sale financial assets		—	2,206
Prepayments and deposits	10	531	180
Financial assets at fair value through profit or loss		455	788
Total non-current assets		24,826	28,614
CURRENT ASSETS			
Inventories		31,840	20,527
Trade and other receivables	10	23,508	21,231
Financial assets at fair value through profit or loss		15,405	22,370
Pledged bank deposit		130	130
Cash and cash equivalents		21,783	23,347
Total current assets		92,666	87,605
CURRENT LIABILITIES			
Trade and other payables	11	30,406	23,332
Interest-bearing bank borrowing		69	92
Deferred income		409	271
Tax payables		—	143
Total current liabilities		30,884	23,838
NET CURRENT ASSETS		61,782	63,767
TOTAL ASSETS LESS CURRENT LIABILITIES		86,608	92,381
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing		184	207
Deferred tax liability		340	366
Total non-current liabilities		524	573
Net assets		86,084	91,808
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital		31,967	31,958
Reserves		53,505	59,188
		85,472	91,146
Non-controlling interests		612	662
Total equity		86,084	91,808

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 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 2018.

2. Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 of the Group has been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The unaudited condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual report for the year ended 31 December 2017.

3. Significant accounting policies

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the adoption of the following new and revised HKFRSs (which also included HKASs and interpretations) that affect the Group and are adopted for the first time for the current period's financial information.

(a) Changes in accounting policies and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current period's financial information.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impacts of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial information.

HKFRS 9

The Group has adopted HKFRS 9 on 1 January 2018. HKFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting which have resulted in the following changes in accounting policies.

The Group has not restated comparative information for the period ended 30 June 2017 for financial instruments in the scope of HKFRS 9. Therefore, the comparative information for 2017 would follow the requirements under HKAS 39 *Financial Instruments: Recognition and Measurement* and is not comparable to the information presented for 2018. Differences arising from the adoption of HKFRS 9 have been recognised directly in relevant balance sheet items as of 1 January 2018.

(i) Classification and measurement
Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVTPL"), amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are as follows:

- Debt instruments at amortised cost for financial assets – that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables.

- Equity investments at FVOCI – with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity investments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group does not have any financial assets classified in this category.

- Financial assets at FVTPL – include a derivative instrument, listed debt instruments, listed and unlisted equity investments which the Group has not irrevocably elected, at initial recognition or transition, to classify as FVOCI. Under HKAS 39, the Group's unlisted equity investments were classified as available-for-sale financial assets at cost.

- Debt instruments at FVOCI – with gains or losses recycled to profit or loss on derecognition. The Group does not have any financial assets classified in this category.

The assessment of the Group's business model was made as of the date of initial application, i.e. 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities in non-financial host contracts has not been changed from that required by HKAS 39.

(ii) Impairment
The adoption of HKFRS 9 has changed the Group's accounting for impairments by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets original effective interest rate.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic conditions.

The Group has applied the general approach and recorded twelve-month ECLs that are estimated based on the possible default events on its other receivables within the next twelve months. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 did not result in change in impairment allowances of the Group's debt financial assets.

The following table analyses the impact of transition to HKFRS 9 on consolidated balance sheet of the Group.

Consolidated Balance Sheet (extract)	Balance at 31 December 2017 as originally presented	Reclassification due to HKFRS 9	Balance at 1 January 2018
	US$'000	US$'000	US$'000
Non-current assets			
Available-for-sale financial assets	2,206	(2,206)	—
Financial assets at FVTPL	788	2,206	2,994

HKFRS 15

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of accumulated losses at 1 January 2018 and not to restate the comparative figures.

The Group is in the business of sales of proprietary integrated circuits products in which the Group's contracts with customers for the sale of products generally include one type of performance obligation. The Group has concluded that revenue from sale of products should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition. However, the amount of revenue to be recognised was affected, as noted below.

The Group provides volume rebates to certain of its customers on specified products purchased by these customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Prior to adoption of HKFRS 15, the Group estimated the expected volume rebates using the probability-weighted average amount of rebates approach and included a provision for rebates in trade and other payables.

Under HKFRS 15, volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Group applied the 'most likely amount method' as the contracts offer fixed amount of rebates for a single volume threshold for each particular product. The Group then applies the requirements on constraining estimates of variable consideration. Upon adoption of HKFRS 15, the Group recognised refund liabilities under trade and other payables for the expected future rebates and derecognised the provision for rebates under trade and other payables of US$537,000 as at 1 January 2018. The adoption of HKFRS 15 did not result in any impact on the loss for the corresponding period or accumulated losses as at 1 January 2018 as the estimation of variable considerations and application of constraint are not materially different from the provision estimation under HKAS 18.

(b) Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued, but are not yet effective, in these financial information:

Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKAS 19	Plan Amendments, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after 1 January 2021

[3] No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of the new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's result of operation 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, etc.

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 represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the period which amounted to US$45,685,000 (1H 2017: US$38,637,000).

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 Hong Kong, Taiwan, China and Japan.

	Unaudited Six months ended 30 June	
	2018	2017
	US$'000	US$'000
Hong Kong	17,224	10,517
Taiwan	11,828	9,910
China	5,870	4,515
Japan	4,644	2,837
Europe	3,220	3,271
Korea	2,286	5,323
USA	186	194
South East Asia	94	1,593
Others	333	477
	45,685	38,637

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

(b) Total assets

	Unaudited 30 June	Audited 31 December
	2018	2017
	US$'000	US$'000
Hong Kong	61,352	67,863
China	30,470	27,387
Taiwan	22,816	12,754
Korea	1,881	7,050
UK	853	987
Others	120	109
South East Asia	—	69
	117,492	116,219

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	
	2018	2017
	US$'000	US$'000
Intangible assets		
Korea	—	1,896
	—	1,896
Property, plant and equipment		
China	981	330
Taiwan	161	250
Hong Kong	75	29
UK	23	547
Korea	1	29
Others	—	1
	1,241	1,186
	1,241	3,082

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	
	2018	2017
	US$'000	US$'000
Cost of inventories sold	**28,458**	21,865
Product engineering costs	**1,857**	2,565
Provision for obsolete or slow moving inventories	**1,452**	1,475
Amortization of intangible assets	**2,132**	1,786
Depreciation	**908**	510
Minimum lease payments under operating leases	**944**	988
Employee benefit expenses (including Directors' emoluments):		
– Equity compensation	**(5)**	191
– Non-equity compensation	**16,172**	14,743
– Pension scheme contributions	**305**	331
Foreign exchange differences, net	**507**	309

6. Finance income – net

	Unaudited Six months ended 30 June	
	2018	2017
	US$'000	US$'000
Interest income	**251**	454
Dividend income	**89**	189
Fair value gain on financial assets at FVTPL, net	**1,809**	1,854
Interest expense of bank loan	**(2)**	(1)
	2,147	2,496

7. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) while overseas income tax has been provided at the rates of taxation prevailing in the countries/jurisdiction in which the Group operates. No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits for the six months ended 30 June 2018 and 2017.

	Unaudited Six months ended 30 June	
	2018	2017
	US$'000	US$'000
Current - Hong Kong		
- Overprovision in prior years	**(89)**	—
Current - Elsewhere		
- Charge for the period	**1**	3
Deferred	**(26)**	(17)
Total tax credit for the period	**(114)**	(14)

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 2,479,800,417 (1H 2017: 2,477,597,379) ordinary shares in issue during the period.

The Group's loss for the period attributable to the equity holders of the Company was US$6,266,000 (1H 2017: US$5,577,000).

(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	
	2018	2017
Weighted average number of ordinary shares in issue	**2,479,800,417**	2,477,597,379
Conversion of all dilutive share options outstanding[(i)]	**—**	—
Adjusted weighted average number of ordinary shares for diluted loss per share calculation	**2,479,800,417**	2,477,597,379

(i) As at 30 June 2018, there were 22,910,000 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 2018.

9. Dividend

No dividend for the year ended 31 December 2017 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 2018.

10. Trade and other receivables

	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Trade receivables	**15,554**	15,491
Trade receivables from related parties	**1,693**	1,696
Trade receivables	**17,247**	17,187
Deposits, prepayments and other receivables	**6,166**	3,810
Prepayments to related parties	**95**	234
Trade and other receivables – current portion	**23,508**	21,231
Prepayments and deposits – non-current portion	**531**	180
	24,039	21,411

As at 30 June 2018, 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 2018 US$'000	Audited 31 December 2017 US$'000
Current	13,182	10,805
1 – 30 days	2,915	4,490
31 – 60 days	1,150	1,370
61 – 90 days	—	519
91 – 180 days	—	3
	4,065	6,382
	17,247	17,187

As at 30 June 2018, trade receivables of US$4,065,000 (31 December 2017: US$6,382,000) were considered past due but not impaired since most of the overdue sum has been settled after the balance sheet date.

The Group considers a financial asset in default when the contractual payment day is more than 90 days past due. As there was no history of default in prior years, the management considered the default rate is minimal.

11. Trade and other payables

	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Trade payables	19,767	15,636
Accrued expenses and other payables	10,639	7,696
	30,406	23,332

As at 30 June 2018, the ageing analysis of trade payables based on overdue days is as follows:

	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Current	18,792	11,526
1 – 30 days	670	3,692
31– 60 days	158	272
Over 90 days	147	146
	19,767	15,636

12. Event after the reporting period

On 8 June 2018, the Group entered into sales and purchase agreements with five independent purchasers to dispose of an unlisted equity investment for an aggregate consideration of HK$36,890,000 (equivalent to US$4,760,000). As at 30 June 2018, deposits of HK$13,488,000 (equivalent to US$1,740,000) were received and the transactions are expected to be completed in August 2018, subject to fulfillment of certain precedent conditions.

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$45.7 million (1H 2017: US$38.6 million), mainly due to new products introduced to the market. The overall book-to-bill ratio of the Group for the period in 2018 was 1.1 (1H 2017: 1.1).

Gross profit of US$14.6 million and gross margin of 32.0% were recorded for the six months ended 30 June 2018 (1H 2017: US$14.7 million and 38.1%, respectively).

S&D expenses of US$2.0 million and administrative expenses of US$6.6 million represented an increase from the corresponding period in 2017.

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 products introduced, its R&D costs during the period under review was maintained at a high level of US$16.6 million (mainly staff costs and amortization of intangible assets) (1H 2017: US$16.3 million).

For the six months ended 30 June 2018, the Group recorded a net finance income of US$2.1 million (1H 2017: US$2.5 million) derived from the various investment portfolios of the Group, comprising bank interests, dividends from securities and mark-to-market gain on financial assets.

As a result of the aforesaid elements, the Group has reported a net loss attributable to the Company's equity holders of US$6.3 million (1H 2017: US$5.6 million). The Board resolved not to declare an interim dividend for the six months ended 30 June 2018.

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$0.3 million (1H 2017: US$0.6 million).

The Group's financial assets at fair value through profit or loss are stated at fair value. A net fair value loss of US$0.4 million (1H 2017 net fair value gain: US$1.9 million) was recorded on marketable and listed debt or equity securities. A net fair value gain of US$2.2 million (1H 2017: Nil) was recorded for a derivative instrument and an unlisted equity security.

As a result, the Group recorded a net finance income of US$2.1 million (1H 2017: US$2.5 million) from financial investments.

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 financial assets at FVTPL were under external professional portfolio management as at 30 June 2018. These financial assets at FVTPL comprised mainly marketable bonds, mutual funds, exchange traded funds and listed equity securities held through reputable financial institutions including Goldman Sachs, UBS and Hang Seng Bank. As at 31 July 2018, being the latest practicable date prior to the printing of the Interim Report, the carrying value of the financial assets at FVTPL under current assets was maintained at the similar level as that on the balance sheet date with no material fluctuation.

Total cash and cash equivalents and bank deposits of the Group were US$21.8 million as at 30 June 2018, a reduction of US$1.5 million, compared to US$23.3 million as at 31 December 2017. 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 2018, 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.

Capital Expenditure and Contingent Liabilities

During 1H 2018, capital expenditure of the Group was US$1.2 million (1H 2017: US$3.1 million).

As at 30 June 2018, there was US$0.2 million capital expenditure contracted but not provided for (31 December 2017: 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 period under review, the Group managed to achieve an increase in revenue of around 18% year-on-year to US$45.7 million, while the total shipments saw a significant increase year-on-year of around 60% to 144.9 million units. This was mainly attributable to the strong growth of the PMOLED display driver IC and bistable display driver IC businesses under the Advanced Display Business Unit ("ADBU"); and the contribution from the touch controller IC and large display driver IC business under the Main Display Business Unit ("MDBU").

The establishment of the strategic China business and technology center in Nanjing has greatly facilitated the Group's business development in China, in particular for its large display driver ICs. The R&D talent pool strengthened by the establishment of technology centers in Nanjing, the UK, Taiwan and Korea has accelerated the pace of new product development, preparing the Group for capturing the upcoming business opportunities.

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

Sales (US$ million)	1H 2018	1H 2017	Change	2017 Full Year
Advanced Display	25.9	18.6	+39%	41.2
Main Display	19.8	20.0	-1%	41.3
Total	45.7	38.6	+18%	82.5

Advanced Display

The 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.

During the period under review, the ADBU has witnessed a robust growth in revenue of 39% year-on-year to US$25.9 million (1H 2017: US$18.6 million).

With the expansion in production capacity of PMOLED panels in the market, an increasing number of bank keys are adopting PMOLED displays instead of STN LCD displays. Also, the smart appliances market has been witnessing rapid growth in the age of the Internet of Things ("IoT"). These trends, together with the continued growth of the wearables market, have underpinned the substantial growth of the Group's PMOLED display driver IC business during the review period. For wearables, as the market has seen a shift of display trend from monochrome to higher resolution grayscale, the Group has garnered design-in projects to capture the business opportunities arising. The Group has also continued to expand the application portfolio of the PMOLED display driver IC business by engaging in design-in projects for other applications, including medical devices, optical view finders, etc.

The Group has been developing new products to pave the way for the future. One of its major innovations is the PMOLED Touch and Display Driver Integration ("TDDI") IC, which revolutionizes PMOLED technology by integrating display and touch microelectronics into one single chip. This innovation, which is the world's first ever TDDI IC supporting PMOLED panels, is believed to mark an important milestone in the PMOLED industry and is set to become a significant revenue driver for the Group. Its key applications include wearables, medical devices and smart home appliances, which are all thriving markets. A PMOLED TDDI IC sample is ready for customer outreach.

The Group's bistable display business has seen strong growth leveraging the surging trend of store automation and the adoption of ESL in supermarkets and unmanned stores, particularly in the PRC. Apart from ESL applications, the Group has also achieved design-wins for other applications including scoreboards, tags for logistics asset management, etc. During the period under review, the Group has developed new products supporting larger size bistable display panels of 7 inches to 13 inches.

Main Display

The MDBU provides In-Cell TDDI ICs, 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, etc.

During the period under review, the total sales of the MDBU amounted to US$19.8 million (1H 2017: US$20.0 million), remaining flat with that of last year.

During the period under review, the Group has achieved a number of design wins for its maXTouch® touchscreen controller ICs with major international smartphone/tablet brands. Since the maXTouch® touchscreen controller ICs had not been actively promoted in the market for over one year prior to being purchased by the Group at the end of 2016, it has taken some time and effort for the maXTouch® team to make inroads back into the market. The Group's investment in these market leading products has begun to bear fruit and should contribute to the revenue stream starting from 2018.

The large display driver IC business has seen satisfactory growth and development in the review period. In addition to Panda-FPD, the Group managed to be qualified as a major supplier of large display driver ICs to CEC Panda's new Gen 8.6 fab in Chengdu, and Caihong Optoelectronics Technology in Xianyang. The Group has increased its share in the business of Panda-FPD and boosted the product shipment and revenue. It has also successfully designed-in a number of projects of the potential customers in Chengdu and Xianyang.

The shipment volume of the Group's TDDI IC for FHD panels has started to increase in June and thus could not contribute to the total revenue in time to make up for the reduction in shipments of TDDI IC for FWVGA panels. The Group's new TDDI IC supporting FHD+ "infinity screens" with an aspect ratio of 21:9 has been designed-in a smartphone project and its MIPI bridge ICs have also captured design wins for virtual reality projects.

OUTLOOK

The Group foresees a positive outlook in the second half of the year, given the anticipated strong growth potential in large display driver ICs and key applications of the Group's PMOLED and bistable products, including wearables, ESLs, and smart home devices. Other favorable developments include the expected ramp-up of shipments from the design wins achieved in the first half of the year together with the launch of key new products, including the world's first PMOLED TDDI IC, all of which should contribute to the revenue stream. The favorable book-to-bill ratio of 1.1 is also a positive indicator of growth.

Advanced Display

In addition to the anticipated growing demands from applications including bank keys, smart home appliances, and wristbands with a grayscale display which are expected to further boost the Group's PMOLED display driver IC business, its ground breaking innovation of PMOLED TDDI IC is also expected to start pilot production in the last quarter of the year. The Group is optimistic about the strong potential of the PMOLED business.

The Group believes the growth momentum of the bistable display driver IC business should continue in the second half of the year, boosted by the anticipated continued strong growth of the ESL market in the PRC. The larger size bistable display panel market is also expected to expand leveraging the thriving ESL and medical device markets. The Group also aims to explore other new application markets so as to further expand the application portfolio.

Main Display

The Group expects its maXTouch® touchscreen solutions, which have garnered a number of design wins during the period under review, to continue the growth trend in the second half of 2018. Samples of its key new product, foldable AMOLED touch controller IC, are expected to be ready by the end of 2018 and mass production to start in 2019. The Group is continuing to develop more new touch controller ICs with additional advanced functionality to capture the strong growth potential of this next generation technology. The Group believes that its current leading products and new innovations would help to increase its market share and establish it as a leading global player in mobile touch solutions.

Given the success in increasing its share in the business of Panda-FPD, and engaging with the potential customers in Chengdu and Xianyang, the Group expects its large display driver IC business to sustain the growth momentum in the second half of 2018.

In terms of LCD panel technology, the Group is striving to capture the opportunities arising from the shortage of TDDI IC for FHD+ panels in the market. The Group's new TDDI IC targeting smartphones with a bezel-less frame and a 21:9 screen aspect ratio is expected to start mass production at the end of 2018 or early 2019.

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$16.6 million on R&D, representing about 66% of total expenses and 36% of sales.

HUMAN RESOURCES

As of 30 June 2018, the Group had a total workforce of 424 employees*. About 40% 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 2018.

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 2018.

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 2018.

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, Ernst & Young, 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 2018.

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

Hong Kong, 22 August 2018

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. Ma Yuchuan; 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
ESL	Electronic Shelf Label
FHD	Full High Definition, a display resolution standard of 1920 x 1080 pixels
FHD+	A display resolution standard of 2220 x 1080 pixels, which is more than the normal FHD 1080p
FVTPL	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$/HKD	Hong Kong dollars
HKFRS	Hong Kong Financial Reporting Standards, or collectively for HKAS and Hong Kong Financial Reporting Standards
Hong Kong/HK/HKSAR	Hong Kong Special Administrative Region
IC	Integrated Circuit
LCD	Liquid Crystal Display
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
MIPI	Mobile Industry Processor Interface
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
OLED	Organic Light Emitting Diode
Panda-FPD	Nanjing CEC Panda Flat Panel Display Technology Co., Ltd.**, a company established in the PRC with limited liability, is a subsidiary of Nanjing Huadong Electronics Information & Technology Co., Ltd.**
PMOLED	Passive Matrix Organic Light Emitting Diode
PRC	The People's Republic of China
R&D	Product Design, development and engineering
S&D	Selling and Distribution
SFO	Securities and Futures Ordinance
the Stock Exchange	The Stock Exchange of Hong Kong Limited
TDDI	Touch and Display Driver Integration
TFT	Thin Film Transistor
USA/US	United States of America
US$	US dollars

** for identification purpose only