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

2019 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Revenue increased by about 24% to US$56.6 million
- Gross profit was US$10.0 million
- Gross margin was 17.6%
- Net loss was US$9.6 million
- Loss per share was 0.39 US cent (3.02 HK cents)
- Book-to-bill ratio was 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 2019 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2019

		Unaudited Six months ended 30 June	
	Notes	2019 US$'000	2018 US$'000
Revenue	4	**56,599**	45,685
Cost of sales		**(46,626)**	(31,067)
Gross profit		**9,973**	14,618
Research and development costs		**(14,015)**	(16,578)
Selling and distribution expenses		**(1,819)**	(2,037)
Administrative expenses		**(6,430)**	(6,609)
Other income and gains – net		**2,272**	1,936
		(10,019)	(8,670)
Finance income – net	6	**327**	2,147
		(9,692)	(6,523)
Share of profits of associates		**43**	93
Loss before tax	5	**(9,649)**	(6,430)
Income tax credit	7	**23**	114
Loss for the period		**(9,626)**	(6,316)
Attributable to:			
- Owners of the parent		**(9,569)**	(6,266)
- Non-controlling interests		**(57)**	(50)
		(9,626)	(6,316)
Loss per share attributable to ordinary equity holders of the parent: (expressed in US cent per share)	8		
- Basic		**(0.39)**	(0.25)
- Diluted		**(0.39)**	(0.25)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Unaudited Six months ended 30 June	
	2019 US$'000	2018 US$'000
Loss for the period	**(9,626)**	(6,316)
Other comprehensive income/(loss)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
- Exchange differences arising on translation of foreign operations	**(37)**	569
Total comprehensive loss for the period	**(9,663)**	(5,747)
Attributable to:		
- Owners of the parent	**(9,606)**	(5,697)
- Non-controlling interests	**(57)**	(50)
	(9,663)	(5,747)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Notes	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000
NON-CURRENT ASSETS			
Intangible assets		13,547	15,609
Property, plant and equipment		4,247	5,036
Right-of-use assets		2,502	-
Investments in associates		780	737
Equity investment designated at fair value through other comprehensive income		839	839
Prepayments and deposits	10	597	525
Financial asset at fair value through profit or loss		343	467
Total non-current assets		22,855	23,213
CURRENT ASSETS			
Inventories		20,280	32,654
Trade and other receivables, prepayments and deposits	10	29,516	28,838
Financial assets at fair value through profit or loss		1,055	8,780
Pledged bank deposit		130	130
Cash and cash equivalents		24,556	13,395
Total current assets		75,537	83,797
CURRENT LIABILITIES			
Trade and other payables	11	25,516	26,912
Lease liabilities		1,386	-
Interest-bearing bank borrowings		175	198
Deferred income		296	405
Tax payables		158	152
Total current liabilities		27,531	27,667
NET CURRENT ASSETS		48,006	56,130
TOTAL ASSETS LESS CURRENT LIABILITIES		70,861	79,343
NON-CURRENT LIABILITIES			
Lease liabilities		1,196	-
Deferred tax liability		287	313
Total non-current liabilities		1,483	313
Net assets		69,378	79,030
EQUITY			
Equity attributable to owners of the parent			
Issued capital		31,967	31,967
Reserves		36,898	46,493
		68,865	78,460
Non-controlling interests		513	570
Total equity		69,378	79,030

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 21 August 2019.

2. Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2019 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 2018.

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 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) effective for the first time for the annual periods beginning on or after 1 January 2019.

(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 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases,* the adoption of the above new and revised standards has had no significant financial effect on this financial information.

HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application, 1 January 2019 and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

(i) <u>New definition of a lease</u>
Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

(ii) <u>As a lessee – Leases previously classified as operating leases</u>
Nature of the effect of adoption of HKFRS 16
The Group has lease contracts for various items of property and vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition
Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 as at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend the lease
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) US$'000 Unaudited
Assets	
Increase in right-of-use assets	3,241
Decrease in trade and other receivables, prepayments and deposits	(3)
Increase in total assets	3,238
Liabilities	
Increase in lease liabilities	3,238

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	US$'000 Unaudited
Operating lease commitments as at 31 December 2018	3,817
Weighted average incremental borrowing rate as at 1 January 2019	5.5%
Discounted operating lease commitments as at 1 January 2019	3,493
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(255)
Lease liabilities as at 1 January 2019	3,238

(iii) Summary of new accounting policy

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

The following new standards, amendments to standards and interpretations have been issued, but not effective for the financial year beginning 1 January 2019 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendment to HKFRS 3	*Definition of a Business*	1 January 2020
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	No mandatory effective date yet determined but available for adoption
HKFRS 17	*Insurance Contracts*	1 January 2021
Amendment to HKAS 1 and HKAS 8	*Definition of Material*	1 January 2020

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.

Sales amounted to US$56,599,000 for the six months ended 30 June 2019 (1H2018: US$45,685,000).

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 and Taiwan.

(a) Revenue from contracts with customers disaggregated by geographical market

	Unaudited Six months ended 30 June	
	2019	2018
	US$'000	US$'000
Hong Kong	**36,887**	17,224
Taiwan	**6,676**	11,828
Japan	**3,977**	4,644
Europe	**3,538**	3,220
China	**2,936**	5,870
Korea	**1,841**	2,286
Others	**338**	333
USA	**254**	186
South East Asia	**152**	94
	56,599	45,685

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

(b) Revenue from contracts with customers disaggregated by product types

	Unaudited Six months ended 30 June	
	2019	2018
	US$'000	US$'000
Advanced Display ICs	**20,272**	25,896
Large Display ICs	**21,138**	4,102
Other ICs	**15,189**	15,687
	56,599	45,685

Other ICs mainly comprises mobile touch and mobile display products.

(c) Non-current assets

	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000
Hong Kong	**13,119**	12,741
China	**4,600**	5,128
Taiwan	**1,981**	2,172
Korea	**1,580**	1,536
United Kingdom	**365**	310
Others	**28**	20
	21,673	21,907

Non-current assets are listed based on where the assets are located which exclude financial instruments. Others mainly comprise Japan.

(d) Capital expenditures

	Unaudited Six months ended 30 June	
	2019	2018
	US$'000	US$'000
Property, plant and equipment		
China	**20**	981
Taiwan	**15**	161
Hong Kong	**-**	75
UK	**15**	23
Korea	**9**	1
	59	1,241

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

(e) Major customers

For the six months ended 30 June 2019, the largest and the second largest customers were located in Hong Kong. Sales to them were US$20,142,000 and US$7,196,000 respectively, which were all over 10% of the Group's total revenue. For the six months ended 30 June 2018, the largest, the second largest and the third largest customers were located in Hong Kong, Taiwan and Japan respectively. Sales to them were US$7,405,000, US$5,924,000 and US$4,570,000, respectively, which were all over 10% of the Group's total revenue.

5. Loss before tax

The Group's loss before tax is arrived at after charging:

	Unaudited Six months ended 30 June	
	2019	2018
	US$'000	US$'000
Cost of inventories sold	**41,944**	29,395
Provision for obsolete or slow moving inventories	**4,440**	1,452
Impairment of trade receivables	**80**	-
Amortization of intangible assets	**2,062**	2,132
Depreciation (note)	**847**	908
Depreciation of right-of-use assets	**720**	-
Foreign exchange differences, net	**208**	507

Note: depreciation expense of US$242,000 (1H2018: US$220,000) has been charged in cost of sales, US$172,000 (1H2018: US$180,000) in research and development costs and US$433,000 (1H2018: US$508,000) in administrative expenses.

6. Finance income – net

	Unaudited Six months ended 30 June	
	2019	2018
	US$'000	US$'000
Interest income	**57**	251
Dividend income	**24**	89
Fair value gain on financial assets at FVTPL, net	**329**	1,809
Interest expense of bank loan	**(1)**	(2)
Interest expense of lease liabilities	**(82)**	-
	327	2,147

7. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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 2019 and 2018.

	Unaudited Six months ended 30 June	
	2019	2018
	US$'000	US$'000
Current - Hong Kong		
- Overprovision in prior years	**-**	(89)
Current - Elsewhere		
- Charge for the period	**3**	1
Deferred	**(26)**	(26)
Total tax credit for the period	**(23)**	(114)

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 2,480,028,242 (1H 2018: 2,479,800,417) ordinary shares in issue during the period.

The Group's loss for the period attributable to the equity holders of the Company was US$9,569,000 (1H 2018: US$6,266,000).

(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	
	2019	2018
Weighted average number of ordinary shares in issue	**2,480,028,242**	2,479,800,417
Conversion of all dilutive share options outstanding[(i)]	**-**	-
Adjusted weighted average number of ordinary shares for diluted loss per share calculation	**2,480,028,242**	2,479,800,417

(i) As at 30 June 2019, there were 15,660,000 (31 December 2018: 21,760,000) share options outstanding which could potentially have a dilutive impact but were anti-dilutive for the period then ended. Hence, no adjustment has been made on the calculation of the diluted loss per share for the period ended 30 June 2019.

9. Dividend

No dividend for the year ended 31 December 2018 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 2019.

10. Trade and other receivables, prepayments and deposits

	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000
Trade receivables	**23,380**	22,527
Trade receivables from related parties	**2,561**	1,527
Impairment	**(220)**	(140)
Trade receivables – net	**25,721**	23,914
Deposits, prepayments and other receivables	**3,702**	4,692
Prepayments to related parties	**93**	232
Trade and other receivables – current portion	**29,516**	28,838
Prepayments and deposits – non-current portion	**597**	525
	30,113	29,363

As at 30 June 2019, the Group's trade receivables from corporate customers were mainly on credit terms of 30 to 90 days. The ageing analysis of trade receivables based on invoice dates and net of loss allowance, is as follows:

	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000
1 – 30 days	9,375	9,622
31 – 60 days	7,307	6,547
61 – 90 days	5,046	4,522
91 – 180 days	3,937	3,223
181 – 365 days	56	-
	25,721	23,914

The movements in the loss allowance for impairment of trade receivables are as follows:

	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000
At beginning of year	140	140
Impairment losses	80	-
At end of period/year	220	140

11. Trade and other payables

	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000
Trade payables	17,923	18,697
Accrued expenses and other payables	5,933	6,462
Contract liabilities	475	-
Refund liabilities	1,185	1,753
	25,516	26,912

As at 30 June 2019, the ageing analysis of trade payables based on invoice dates is as follows:

	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000
1 – 30 days	8,363	6,293
31 – 60 days	5,077	5,072
61 – 90 days	4,265	5,538
Over 90 days	218	1,794
	17,923	18,697

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

During the period under review, the Group achieved a satisfactory growth rate of around 24% in revenue to US$56.6 million (1H 2018: US$45.7 million), mainly attributed to the strong growth of the Group's large display products. The overall book-to-bill ratio of the Group for the period in 2019 was 1.1 (1H 2018: 1.1).

Gross profit of US$10.0 million and gross margin of 17.6% were recorded for the six months ended 30 June 2019 (1H 2018: US$14.6 million and 32.0%, respectively).

S&D expenses of US$1.8 million and administrative expenses of US$6.4 million represented a decrease from the corresponding period in 2018.

Being a technology company, the Group is committed to investing in product R&D and business development. The Group remained selective in its product R&D spending. Its R&D costs during the period under review amounted to US$14.0 million (mainly staff costs and amortization of intangible assets) (1H 2018: US$16.6 million).

For the six months ended 30 June 2019, the Group recorded a net finance income of US$0.3 million (1H2018: US$2.1 million) derived from the various investment portfolios of the Group, comprising bank interests, dividends from securities and mark-to-market gain on financial assets.

The Group has reported a net loss attributable to the Company's equity holders of US$9.6 million (1H 2018: US$6.3 million). The Board resolved not to declare an interim dividend for the six months ended 30 June 2019.

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$0.1 million (1H 2018: US$0.3 million).

The Group's financial assets at fair value through profit or loss are stated at fair value. A net fair value gain of US$0.4 million (1H 2018 net fair value loss: US$0.4 million) was recorded on marketable and listed debt or equity securities. A net fair value loss of US$0.1 million was recorded for a derivative instrument for the six months ended 30 June 2019 (1H 2018 net fair value gain: US$2.2 million for a derivative instrument and an unlisted equity security which has been disposed in 1H 2018).

As a result, the Group recorded a net finance income of US$0.3 million (1H 2018: US$2.1 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 FVTPL were under external professional portfolio management as at 30 June 2019. These FVTPLs comprised mainly marketable bonds, mutual and other funds held through reputable financial institutions including Goldman Sachs, UBS and Hang Seng Bank. As at 31 July 2019, being the latest practicable date prior to the printing of the Interim Report, the carrying value of the 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$24.6 million as at 30 June 2019, an increment of US$11.2 million, compared to US$13.4 million as at 31 December 2018. 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 2019, the Group had no major borrowing other than 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 2019, capital expenditure of the Group was US$59,000 (1H 2018: US$1.2 million).

As at 30 June 2019 and 31 December 2018, there was no material capital expenditure contracted for but not yet incurred.

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

BUSINESS REVIEW AND OUTLOOK

Business Review

The market situation in the first half of 2019 was challenging. Consumer confidence was undermined by the volatile global economy, leading to reduced market demand for consumer electronic devices in general, which in turn has adversely affected the growth of the Group's Advanced Display ("AD") products, in particular PMOLED display driver ICs. Nonetheless, attributable to the strong growth of the large display driver IC business driven by the strategically located Solomon Systech (China) Limited, the Group's total shipments registered an increase of approximately 12% to about 162.6 million units, while revenue increased around 24% year-on-year to approximately US$56.6 million during the period under review. The Group's new management on board since March 2019 has devised strategies to boost business growth, minimize operating expenses, and optimize operating margins, contributing to double-digit quarter-on-quarter growth in both total unit shipments and total revenue.

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

Units Shipped (million units)	1H 2019	1H 2018	Change	2018 Full Year
Advanced Display	**66.7**	106.0	(37%)	184.4
Large Display	**67.9**	11.8	476%	58.0
Others	**28.0**	27.0	4%	53.4
Total	**162.6**	144.8	12%	295.8

Advanced Display

The AD products include PMOLED display, bistable products, micro-/mini-LED products and OLED lighting products. In addition to standard ICs, the Group also provides custom IC design services, including analog, mixed-signal and high-voltage IC designs to cater for the specific needs of customers.

The volatile global macroeconomic environment during the period under review has undermined customer confidence in retail market, which was translated into reduced orders for wearables and other applications of the Group's PMOLED display driver ICs, and thereby has changed the mix of the AD products. The total unit shipments of the AD products during the period under review saw a year-on-year reduction of around 37% to approximately 66.7 million units (1H 2018: 106.0 million units).

Despite the turbulent economy dampening the demand for wearable applications in general, the Group has maintained its business with some top-tier wearable brands. To capitalize on the growing potential of smart home appliances market under the rising trend of AIoT ("Artificial Intelligence of Things"), the Group has successfully achieved related design-in projects, including wireless bluetooth speakers, smart door knobs, etc. The Group's key innovation, the PMOLED Touch and Display Driver Integration ("TDDI") IC SSD7317, has started design-in activities during the first half of 2019.

While the trend of unmanned stores in the PRC subsided slightly during the period under review, the Group focused on promoting its new bistable display driver IC for larger-size ESL panels of 7 inches to 13 inches, targeting applications including section signages for supermarkets, scoreboards, tags for logistics asset management, etc. The Group has also achieved design wins for new products supporting smaller-size bistable display panels of 1 inch to 2 inches with higher DPI, with a view to capitalizing on the trend of digitalization of convenience stores.

Seeing the strong potential of micro-LED which is said to be emerging as a next generation display technology featuring ultra-high display brightness and fine pixel pitch, the Group has started the development of this technology since 2016, and has successfully launched a custom IC for signage display in premier shopping malls. Apart from targeting large advertising and outdoor signages, micro-LED also supports various other applications. During the period under review, the Group has collaborated with global leading companies and developed a micro-LED prototype for wearable applications.

Large Display

The Group's Large Display ("LD") products include large panel TFT LCD display driver ICs developed for TVs, monitors and other applications.

During the period under review, despite facing the constraint of inadequate supply of certain raw materials for COF package for its LD products, the Group's LD business registered significant growth of about 476% in total shipments year-on-year to approximately 67.9 million units (1H 2018: 11.8 million units).

In addition to increasing its business in Nanjing, the Group managed to further boost its LD product shipment and revenue growth capitalizing on the new customers in Chengdu and Xianyang. The design win projects garnered included display driver ICs for 23.8-inch 144Hz high-end gaming monitors and 27-inch full HD monitors, and also for various TV panels, including 23.8-inch and 43-inch full HD GOA panels, 32-inch HD panels, 50-inch and 58-inch UHD GOA panels, etc.

The Group's P2P ("point-to-point") display driver IC for the high-end 120Hz UHD TV and 8K TV markets has samples ready for testing during the review period.

Others

In addition to AD and LD products, the Group also provides other products, among which include: Mobile Touch ("MT") products covering AMOLED touch controller ICs (foldable/ flexible/POLED/rigid) and LCD touch controller ICs (Out-Cell/On-Cell/Hybrid In-Cell); and Mobile Display ("MD") products such as In-Cell TDDI ICs, TFT LCD display driver ICs and MIPI bridge ICs, etc.

The unit shipments of this category of products increased slightly by approximately 4% year-on-year to around 28.0 million units (1H 2018: 27.0 million units).

The Group's MT business in general was affected by reduced customer orders, in particular in the second quarter of 2019. Nonetheless, the Group's products supporting the console controller of a major brand of video game has started mass production. The Group has also designed-in its AMOLED touchscreen controller ICs for foldable/flexible smartphones with a key module manufacturer in the PRC, enhancing the possibility of reaching out to more top-tier smartphone customers. The Group's MD business was boosted in the second quarter of 2019 by the mass production of both custom-made In-Cell TDDI IC for Full HD+ (1080 x 2160) LTPS panels and MIPI bridge ICs, targeting applications including quality smartphone screen replacement, test jigs, virtual reality devices, etc.

OUTLOOK

Although the lingering uncertainty in the global economy may continue to weigh on the Group's business as a whole, the Group also sees some positive spots for the second half of the year. The Group's large display business is expected to continue its strong growth momentum. A number of new products and design win projects are anticipated to start contributing to the Group's revenue. Moreover, the growth driving strategies implemented have started to yield some results. The favorable book-to-bill ratio of 1.1 is also a positive indicator of growth.

Advanced Display

The Group's key innovation of PMOLED TDDI IC is anticipated to start mass production by the end of 2019 and contribute to the revenue stream. The Group has also started the development of the next generation PMOLED TDDI IC supporting higher resolution, both In-Cell and Out-Cell touch, and larger size displays with more touch keys, with a view to capturing the smart home appliances market which has strong growth potential.

The new product supporting smaller-size bistable display panels of 1 inch to 2 inches, targeting ESL applications at convenience stores, is expected to continue generating revenue, while the PMOLED display driver ICs for wireless bluetooth speakers and other smart home appliances target to start mass production by end of 2019.

The Group will continue to work with market leading micro-LED panel manufacturers to develop more new ICs for this next generation technology, getting ready to capitalize on its growth potential. These new products are scheduled to be launched into the market starting from 2020.

Large Display

The Group's large display driver IC business is set to continue its strong growth momentum in the second half of 2019.

The Group's business with the key customer in Nanjing is anticipated to continue to prosper, and as a major supplier of the key customers in both Chengdu which has a large production capacity, and Xianyang, the Group is ready to leverage these customers' growing business to drive further growth.

The P2P display driver IC for the high-end 120Hz UHD TV and 8K TV markets is expected to be ready to start mass production in the second half of 2019.

Others

The design wins achieved by the Group's mobile display products is expected to continue to bring in revenue in the second half of the year. The Group will leverage the design-in projects of its AMOLED touchscreen controller ICs for foldable/flexible smartphones to engage top-tier smartphone customers.

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$14.0 million on R&D, representing about 63% of total expenses and 25% of sales.

HUMAN RESOURCES

As of 30 June 2019, the Group had a total workforce of 362 employees*. About 34% 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 2019.

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 2019.

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 2019.

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 21 August 2019.

On behalf of the Board
Solomon Systech (International) Limited
Wang Wah Chi, Raymond
Acting Chief Executive Officer

Hong Kong, 21 August 2019

As at the date of this announcement, the Board comprises: (a) Executive Directors – Mr. Wang Wah Chi, Raymond (Acting Chief Executive Officer) and Mr. Lo Wai Ming; (b) Non-executive Directors – Mr. Ma Yuchuan (Chairman), Dr. Li Jun and Mr. Yu Jian; 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
China	Mainland China, for the purpose of this report, excludes Hong Kong and Macau Special Administrative Regions of the PRC and Taiwan
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
Full HD+	A display resolution standard of 2220 x 1080 pixels, which is higher than the normal FHD 1080p
FVTPL	Fair value through profit or loss
GOA	Gate on Array
Group	The Company and its subsidiaries
HD	High Definition, a display resolution standard of 1280 x 720 pixels
HKAS	Hong Kong Accounting Standards
HK$/HKD	Hong Kong dollars
HKFRS	Hong Kong Financial Reporting Standards, or collectively for HKAS and Hong Kong Financial Reporting Standards
Hong Kong/HK/HKSAR	Hong Kong Special Administrative Region
IC	Integrated Circuit
LCD	Liquid Crystal Display
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
MIPI	Mobile Industry Processor Interface
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
OLED	Organic Light Emitting Diode
PMOLED	Passive Matrix Organic Light Emitting Diode
PRC	The People's Republic of China, for the purpose of this report, excluded Hong Kong and Macau Special Administration Regions of the PRC and Taiwan
R&D	Product Design, development and engineering
S&D	Selling and Distribution
SFO	Securities and Futures Ordinance
the Stock Exchange	The Stock Exchange of Hong Kong Limited
TDDI	Touch and Display Driver Integration
TFT	Thin Film Transistor
UHD	Ultra high definition is a display resolution standard of 3840 x 2160 pixels (8.3 megapixels; 4K)
USA/US	United States of America
US$	US dollars

** for identification purpose only