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**SOLOMON
SYSTECH**

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

晶門半導體有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

FINANCIAL HIGHLIGHTS

- Revenue increased by about 45.1% to US\$108.5 million
- Gross profit was US\$42.2 million, jumped by 45.0%
- Gross margin was 38.9%
- Profit attributable to owners of the parent was US\$21.8 million
- Earnings per share was 0.87 US cent (equivalent to 6.74 HK cents)
- Book-to-bill ratio was 1.0

INTERIM RESULTS

The Directors of Solomon Systech (International) Limited (the “Company”) announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2022 together with the comparative figures for the corresponding period as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

	Notes	Unaudited	
		Six months ended 30 June	
		2022	2021
		US\$'000	US\$'000
Revenue	4	108,548	74,828
Cost of sales		(66,344)	(45,720)
Gross profit		42,204	29,108
Research and development costs		(14,874)	(12,118)
Selling and distribution expenses		(1,984)	(1,377)
Administrative expenses		(3,954)	(5,353)
Other income and gains – net		290	272
		21,682	10,532
Finance income – net	6	13	101
		21,695	10,633
Share of profits of associates		76	108
Profit before tax	5	21,771	10,741
Income tax expense	7	(13)	(70)
Profit for the period		21,758	10,671
Attributable to:			
– Owners of the parent		21,760	10,710
– Non-controlling interests		(2)	(39)
		21,758	10,671
Earnings per share attributable to ordinary equity holders of the parent: (in US cent)	8		
– Basic		0.87	0.43
– Diluted		0.87	0.43

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Unaudited	
	Six months ended 30 June	
	2022	2021
	US\$'000	US\$'000
Profit for the period	21,758	10,671
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	113	(27)
Total comprehensive income for the period	21,871	10,644
Attributable to:		
– Owners of the parent	21,873	10,683
– Non-controlling interests	(2)	(39)
	21,871	10,644

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		Unaudited 30 June 2022 US\$'000	Audited 31 December 2021 US\$'000
	Notes		
NON-CURRENT ASSETS			
Intangible assets		236	505
Property, plant and equipment		5,610	4,269
Right-of-use assets		2,500	2,315
Investments in associates		1,158	1,082
Equity investment designated at fair value through other comprehensive income		1,065	1,065
Other receivables, prepayments and deposits	10	7,107	9,087
Total non-current assets		17,676	18,323
CURRENT ASSETS			
Inventories		47,017	40,866
Trade and other receivables, prepayments and deposits	10	44,451	38,967
Pledged bank deposits		12,000	17,000
Cash and cash equivalents		47,420	24,757
Total current assets		150,888	121,590
CURRENT LIABILITIES			
Trade and bills payables and other payables	11	59,512	50,149
Interest-bearing bank borrowings		181	–
Lease liabilities		1,330	1,139
Deferred income		3	3
Tax payables		355	342
Total current liabilities		61,381	51,633
NET CURRENT ASSETS		89,507	69,957
TOTAL ASSETS LESS CURRENT LIABILITIES		107,183	88,280
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		–	181
Lease liabilities		1,301	1,392
Total non-current liabilities		1,301	1,573
Net assets		105,882	86,707
EQUITY			
Equity attributable to owners of the parent			
Issued capital		32,149	32,123
Reserves		73,791	54,640
		105,940	86,763
Non-controlling interests		(58)	(56)
Total equity		105,882	86,707

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. General information

Solomon Systech (International) Limited and its subsidiaries are fabless semiconductor group specializing in the design, development and sales of proprietary integrated circuits (“IC”) products and system solutions that enable a wide range of display applications for smartphones, tablets, TVs/monitors, notebooks and other smart devices, including electronic shelf labels (ESL), 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 2/F., Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands and the address of its principal office in Hong Kong is Unit 607-613, 6/F. Wireless Centre, 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 interim condensed consolidated financial information is presented in US dollars, unless otherwise stated.

The interim condensed consolidated financial information has been reviewed but not audited, and it was approved for issue on 19 August 2022.

2. Basis of preparation

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2022 (the “period under review”) 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 interim condensed consolidated 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 consolidated financial statements for the year ended 31 December 2021.

3. Significant accounting policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Changes in accounting policies and disclosures

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts - Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The adoption of the above revised HKFRSs had no significant financial effect on this financial information.

- (a) Amendments to HKFRS 3 replace a reference to the *previous Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. As there was no business combination occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

4. Segment information and disaggregation of revenue

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 electronic shelf-labels (ESLs), 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 Director and senior management led by the Chief Executive Officer. The Executive Director and senior management reviewed the Group's internal reporting to assess performance and allocate resources. A management approach has been used for the operating segment reporting.

Sales amounted to US\$108,548,000 for the six months ended 30 June 2022 (1H2021: US\$74,828,000).

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	
	2022	2021
	US\$'000	US\$'000
Hong Kong	62,675	40,220
Mainland China	6,133	8,528
Taiwan	18,734	14,112
Japan	9,092	4,217
Europe	7,618	7,100
Korea	328	463
South East Asia	290	35
USA	3,341	54
Others	337	99
	108,548	74,828

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	
	2022	2021
	US\$'000	US\$'000
New Display ICs	49,731	31,696
OLED Display ICs	15,072	17,377
Mobile Display and Mobile Touch ICs	37,189	16,883
Large Display ICs	6,556	8,872
	108,548	74,828

(c) **Non-current assets**

	Unaudited	Audited
	30 June	31 December
	2022	2021
	US\$'000	US\$'000
Hong Kong	3,617	5,413
Mainland China	5,070	3,349
Taiwan	1,701	1,788
Korea	3	7
	10,391	10,557

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

(d) **Capital expenditures**

	Unaudited	
	Six months ended 30 June	
	2022	2021
	US\$'000	US\$'000
Property, plant and equipment		
Mainland China	1,625	527
Hong Kong	361	387
Taiwan	55	55
	2,041	969

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

(e) **Major customers**

For the six months ended 30 June 2022, the largest customer was located in Hong Kong and sales amount to this customer was US\$43,146,000, which was over 10% of the Group's total revenue. For the six months ended 30 June 2021, the largest customer was located in Hong Kong and sales amount to this customer was US\$28,232,000 which was all over 10% of the Group's total revenue.

5. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	Unaudited Six months ended 30 June	
	2022 US\$'000	2021 US\$'000
Cost of goods sold	58,747	47,498
Provision for slow moving inventories/(reversal of provision for slow moving inventories), net	7,277	(2,072)
Amortisation of intangible assets	269	258
Depreciation of property, plant and equipment (note)	622	527
Depreciation of right-of-use assets	692	668
COVID-19 related rent concession from lessor	78	–
Foreign exchange differences, net	(712)	97

Note: Depreciation expense of US\$320,000 (1H2021: US\$294,000) has been charged in cost of sales, US\$31,000 (1H2021: US\$45,000) in research and development costs and US\$271,000 (1H2021: US\$188,000) in administrative expenses.

6. Finance income – net

	Unaudited Six months ended 30 June	
	2022 US\$'000	2021 US\$'000
Interest income	82	126
Interest on bank loans	(22)	–
Interest on lease liabilities	(47)	(25)
	13	101

7. Income tax

No provision for Hong Kong profits tax has been made as the Group has available tax losses brought forward from prior years to offset the assessable profits generated during the current and prior periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Unaudited Six months ended 30 June	
	2022 US\$'000	2021 US\$'000
Current – Elsewhere		
– Charge for the period	13	70
Deferred income tax	–	–
Total tax charge for the period	13	70

8. Earnings per share

(a) Basic earnings per share

The basic earnings per share is calculated based on the Group's profit for the period attributable to owners of the parent and the weighted average number of 2,493,446,274 (1H2021: 2,485,479,976) ordinary shares in issue during the period.

The Group's profit for the period attributable to owners of the parent was US\$21,760,000 (1H2021: US\$10,710,000).

(b) Diluted earnings per share

The diluted earnings per share is calculated based on the Group's profit attributable to owners of the parent and the weighted average number of ordinary shares in issue 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 2022	2021
Weighted average number of ordinary shares in issue	2,493,446,274	2,485,479,976
Conversion of all dilutive share options outstanding (i)	1,283,976	4,586,626
Adjusted weighted average number of ordinary shares for diluted earnings per share calculation	2,494,730,250	2,490,066,602

- (i) Adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2022 in respect of a dilution on the 31,200,000 share options (six months ended 30 June 2021: 12,900,000 share options) outstanding for the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all dilutive potential ordinary shares into ordinary shares.

9. Dividend

At a meeting held on 23 March 2022, the Directors recommended the payment of a final dividend of 1.0 HK cent per ordinary share for the year ended 31 December 2021. The final dividend was paid on 27 July 2022.

In addition, the Board resolved not to declare an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

10. Trade and other receivables, prepayments and deposits

	Unaudited 30 June 2022 US\$'000	Audited 31 December 2021 US\$'000
Trade receivables	19,806	22,082
Trade receivables from related parties	7,803	2,250
Impairment	(220)	(220)
Trade receivables – net	27,389	24,112
Other receivables, prepayments and deposits	17,027	14,690
Prepayments to related parties	103	233
Impairment	(68)	(68)
Trade and other receivables, prepayments and deposits		
– current portion	44,451	38,967
Other receivables, prepayments and deposits		
– non-current portion	7,107	9,087
	51,558	48,054

As at 30 June 2022, 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 date and net of loss allowance, is as follows:

	Unaudited 30 June 2022 US\$'000	Audited 31 December 2021 US\$'000
1–30 days	16,525	9,795
31–60 days	5,410	6,515
61–90 days	3,219	5,452
91–180 days	2,235	2,350
	27,389	24,112

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

	Unaudited 30 June 2022 US\$'000	Audited 31 December 2021 US\$'000
At beginning of period/year	220	220
Impairment losses/(reversal of impairment losses)	–	–
At end of period/year	220	220

11. Trade and bills payables and other payables

	Unaudited 30 June 2022 US\$'000	Audited 31 December 2021 US\$'000
Trade and bills payables	25,916	23,919
Accrued expenses and other payables	21,738	18,891
Contract liabilities	5,761	6,350
Contract liabilities to a related party	4,489	–
Refund liabilities	1,608	989
	59,512	50,149

As at 30 June 2022, the ageing analysis of trade and bills payables based on invoice date is as follows:

	Unaudited 30 June 2022 US\$'000	Audited 31 December 2021 US\$'000
1–30 days	13,040	14,726
31–60 days	10,120	6,478
61–90 days	2,297	2,439
Over 90 days	459	276
	25,916	23,919

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

BUSINESS REVIEW

While global supply chains and chip shortage remained under pressure over the past year due to a number of factors including continued outbreaks of Covid-19, logistics delays, bottlenecks and higher transportation costs, the Group was able to successfully navigate these challenges. Even as city-lockdowns and various travelling restrictions were still common in the Greater China Area, the Group benefited from a resumption in global economic activities and changing customer habits which drove demand for electric vehicles and 5G smartphones as well as a steady demand for wearables and Artificial Internet of Things (AIoT)/Internet of Things (IoT) devices. With worldwide semiconductor demand remaining strong in the first half of 2022, the increase in raw material and procurement costs resulted in higher selling prices across the industry.

Continued headwinds created new challenges but also brought new opportunities to every player in the semiconductor industry. To tackle the chip component shortage, in early 2021, the Group entered into agreements with leading overseas foundries, these established relationships allow us to maintain a stable supply of chip components in order to support the demand for the Group's products in 2022.

Outstanding Performance

During the period ended 30 June 2022 (the "Period"), the demand for the Group's products remained strong. The Group strategically procured and managed to adjust the product mix to focus on high-end products. With efficient supply chain management to ensure smooth operations and long-term development, the Group persisted with innovation and diligently implemented its strategies with foresight on market trends which rewarded us with an outstanding performance and results. We achieved strong growth in sales revenue and total revenue during the Period which amounted to approximately US\$108.5 million, an increase of more than 45.1% over that of the same period last year (1H 2021: US\$74.8 million).

New Display ICs

New Display IC mainly refer to bistable display. Bistable display is a non-traditional display technology where the display device is illuminated by reflecting ambient light.

During the Period, New Display ICs products showed a significant growth in revenue, as a result of a better product mix and the shifting of focus to more sophisticated products. The increase in demand arose from Electronic Shelf Labels (ESL) in the European and the North American markets. ESL are gaining popularity for their automating pricing and price changes which not only reduces waste but speeds up the pricing process while allowing sales associates to concentrate on other tasks. They are a good option for retailers to not only become more eco-friendly by reducing their carbon footprint but also to increase efficiency and decrease long-term costs.

ESL use is not only booming in Europe and North America but is also becoming an emerging trend in Asian countries. The Group co-developed with E Ink Holdings Inc. ("E Ink") for the Display IC Solutions for Spectra™ 3100, a next-generation specialized platform for ESL and retail signage application. In 2021, we had a major technological break-through that enabled us to develop an ESL with four colour spectrum display. This break-through empowered the Group to take the leading position in this expanding market. The four colour spectrum display project is expected to launch in 2023, at which time it will enter mass production for use in Advanced Colour e-Paper (ACeP) products. To further tap into the markets of e-Signage and e-Reader applications, the Group developed a specific driver IC, which is expected to commence mass production soon. As the supplier with largest market share in e-Paper display driver ICs, the Group strives to provide products and solutions that meet customers' stringent requirements in quality and reliability.

OLED Display ICs

The Group offers a wide range of OLED display driver ICs to match with various applications, including PMOLED display products, mini/micro-LED products and OLED lighting products. The Group is a leading PMOLED display driver IC player and was a global leading supplier in terms of units of shipment in 2021 and during the Period.

The Group provides a full range of PMOLED driver ICs from icon, mono and grey scale to full colour with highly integrated features that are ideal display solutions for portable devices. During the Period, the Group's OLED Display business benefited from the strong market demand for PMOLED wearable devices, smart home solutions and Internet of Things (IoT)/Artificial Internet of Things (AIoT) solutions. This need for sophisticated features and product upgrades is driving the demand momentum.

Our next-generation display solution milestone will be a micro-LED display that uses arrays of tiny micro-LED chips arranged on LTPS backplane. Solomon Systech is a forerunner in the application of mini/micro-LED. Our mini-LED DDI solutions for 50" to 100" indoor signage display have been in mass production since 2018 and are used in the curved signage display in the underground and subways in the UK and the US. As the global high-end consumer electronics market continues to expand, orders for the Group's mini/micro-LED IC products are expected to grow accordingly.

Following the loosening of social distancing restrictions, a majority of developed countries around the World are now transiting to a post-pandemic stage, which resulted in a slowdown in demand for the Group's portable healthcare products IC. However, the global IoT market is a welcoming new opportunity as demand for smart home appliances continue to boom with consumers looking to upgrade to products with enhanced technology, performance, features and design. To seize this demand, the Group has strategically shifted its focus to products that offer a higher value and more sophisticated features.

Mobile Display and Mobile Touch ICs

Solomon Systech provides a wide range of ever-expanding Mobile Display and Mobile Touch IC solutions, including In-Cell Touch Display Driver IC, TFT Display Driver IC, STN Display Driver IC, MIPI Bridge IC and Display Controller IC, that support industrial and consumer applications spanning from smartphones, tablets, wearables, gaming devices to IoT devices.

During the Period, although demand for Mobile Displays dropped due to reduced market demand for consumable electronic products, there was a substantial growth in both volume and average selling price in Mobile Touch ICs. This fully offset the negative impact from the drop in the demand for Mobile Displays, resulting in a substantial increase in sales revenue over that of 1H 2021.

In 2021, the Group, as part of the latest proprietary scheme, launched its first full-colour TDDI specialised for wearables and IoT devices. The TDDI has superior features and offers a combination of cost-effective high performance and low power consumption. We expect to experience steady growth in market demand for the TDDI in 2022 and 2023.

The Group is a pioneer of MIPI solutions for displays, offering a series of proprietary features that support high-resolutions, high-speed and low-power displays for smart devices. Our MIPI – Local Dimming IP is ready to be commercialized and is scheduled to be launched in Q4 2022. In addition, to leverage the Group's pioneering TDDI technologies, the Group is co-developing a human interface display platform with a leading small-to-medium-sized TFT-LCD panel maker. The IC solution is expected to enter mass production in Q3 2022.

Demand for game console controller ICs requiring more accurate controls, faster response and longer battery runtime is growing fast. In view of this market trend, the Group is leveraging its profound expertise in TDDI to explore innovative applications in the sector. We have successfully secured manufacturing orders in 2022 and 2023 which will notably contribute to the Group's revenue base.

Large Display ICs

The Group provides a wide range of large display driver IC solutions that support various applications, including monitors, notebooks and large-size TVs.

Sales revenue during the Period was lower than 1H2021 because of the COVID-19 Pandemic and the change in customer preference. The Group launched a high-speed Peer-to-peer (P2P) display driver IC for the 165Hz high-refresh-rate gaming monitor and 8K HDTV. The driver IC also utilizes a novel architecture with I/O speed up to 3.6Gbps. This latest offering will enhance our product value and increase the Group's visibility in the booming high-end entertainment market.

PRODUCT DEVELOPMENT

The Group values the importance of novel product development to keep up-to-date on new technological advancements and fast-moving trends. As such, the Group is looking for new collaborations to leverage our technological edge and pool of intellectual properties in an effort to accelerate our presence in a variety of targeted fronts and lead us to less explored areas that offer promising rewards.

During the Period, the Group developed a frame modulation system for high-resolution Passive Matrix micro-LED which supports a higher resolution compared to the conventional IC. This novel solution can effectively shorten the development time of TFT board which provides us with a distinctive edge in cost-effectiveness.

AWARDS AND RECOGNITIONS

Solomon Systech aspires to lead in next-generation innovation and excellence in corporate development. In July 2022, the Group was awarded the "HKSAR 25th Anniversary Enterprise Outstanding Contribution Award", in recognition of the Group's contribution to Hong Kong's sustainable economic and social development. We are honored to receive the award and feel it's an encouragement for the Group to continue to vigorously innovate as well as inspire the young generation to embrace their Lion Rock spirit as they embark on their careers.

OUTLOOK

Semiconductors play a tremendous role in an increasingly complex and technologically sophisticated global economy and are present in almost all modern electronics. Semiconductor-enabled technologies allow us to study and work remotely, order goods online, and stay connected with families, friends, and the world.

Despite the relaxing measures in travel and social distancing around the World, the effects of the COVID-19 pandemic are still being felt across various industries, especially as Omicron continues to be prevalent. Supply chain issues are widespread while global supply chain issues and chip shortages are not as significant as they were in 2021, prices remain at a relatively high level. Nonetheless, the Group will continuously develop and provide value-added products to customers, despite the ever-increasing pressure in logistic and materials costs.

To maintain the Group's business growth and to enhance our global visibility, the Group is working on a new ESL IC solution that supports seven colours and on providing novel display IC solutions to the e-Reader market.

Following the launch of the Group's mini-LED display IC products, the Group will intensify its marketing efforts among our first-tier customers to expand our market share.

Embracing the growing trends in the game console controller market, the Group plans to offer players an unprecedented gaming experience. To capture the market potential of the metaverse, we intend to capitalise on our capability in high-speed and high-resolution display IC technology by leveraging the development of enhanced AR and VR products.

With larger high-resolution TVs being introduced to the market, the Group is implementing a promotion plan to strengthen our presence in the market.

Over the past two years, the Group successfully managed numerous changes and overcame many challenges while maintaining outstanding performance. As part of our corporate strategy, we will stay focused on products that create value for our customers and seek opportunities arising from evolving trends.

FINANCIAL REVIEW

Revenue and Results Overview

The Group recorded a growth of about 45.1% in revenue to US\$108.5 million during the Period (1H 2021: US\$74.8 million). The increase in revenue was because of the Group shifted its focus to areas with higher value and more sophisticated features. This strategic change in product mix led to an increase in average selling price (“ASP”) and overall sales revenue. The overall book-to-bill ratio of the Group during the period was 1.0 (1H 2021: 2.0).

Gross profit of US\$42.2 million and gross margin of 38.9% were recorded during the Period (1H 2021: US\$29.1 million and 38.9%, respectively). The significant increment in gross profit was mainly attributable to the change in product mix types during the six months ended 30 June 2022.

Selling and distribution expenses of US\$2.0 million and administrative expenses of US\$4.0 million represented an increase by 44.1% and a drop of 26.1%, respectively, as compared to corresponding period in last year. The increase in selling and distribution expense during the Period was in line with business growth, while the drop in administrative expenses was mainly due to the appreciation of US\$ against majority of other currencies during the Period, as the Group’s administrative expenses were mainly incurred in the PRC, Hong Kong and Taiwan, the amounts would therefore be lower after translating back to US\$.

As a leading technology company, the Group is committed to investing in product R&D and business development. Yet the Group remains selective in its product R&D spending. Its R&D costs during the Period amounted to US\$14.9 million (mainly staff costs and amortisation of intangible assets) (1H 2021: US\$12.1 million), with represented about 13.7% of the total revenue for the six months ended 30 June 2021 (1H 2021: 16.2%).

The Group reported a net profit attributable to owners of the parent of US\$21.8 million during the Period (1H 2021: US\$10.7 million). The Board does not recommend a payment of an interim dividend for the six months ended 30 June 2022.

Liquidity and Financial Resource

	Unaudited	Audited
	30 June	31 December
	2022	2021
	US’000	US’000
Current assets	150,888	121,590
Current liabilities	61,381	51,633
Net current assets	89,507	69,957
Current ratio	2.46	2.35
Debt to equity ratio	0.002	0.002

The Group’s current ratio was 2.46 as at 30 June 2022 (31 December 2021: 2.35), reflecting a strong liquidity in its financial position. The position of working capital representing by net current assets was US\$89.5 million (31 December 2021: US\$70.0 million), which had no significant adverse change from the last financial year end.

The Group has invested in financial assets (mainly bank deposits) as part of its treasury management for interest and dividend income. During the period under review, the Group recorded an interest income of US\$82,000 (1H 2021: US\$126,000).

As a result, the Group recorded a net finance income of US\$13,000 (1H 2021: US\$101,000) from financial investments.

Treasury Management

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.

Total cash and cash equivalents and pledged bank deposits of the Group were US\$59.4 million as at 30 June 2022 (31 December 2021: US\$41.8 million), an increment of US\$17.6 million, of which US\$12.0 million denominated in US dollars (31 December 2021: US\$17.0 million) were pledged to banks to secure for general banking facilities for general operation purpose. Cash and cash equivalents and bank deposits of the Group were mainly denominated in US dollars, Hong Kong dollars 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 2022, the Group had no major borrowing other than the revolving bank credit lines of a Korean subsidiary for working capital financing amounting to US\$181,000 denominated in Korean Won and a bills payable of US\$2.2 million with a bank in Hong Kong. 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 2022, capital expenditure of the Group was US\$2,041,000 (1H 2021: US\$969,000).

As at 30 June 2022, there was US\$1.2 million capital expenditure contracted but not provided for (31 December 2021: US\$1.2 million).

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

Acquisition and Disposal of Material Subsidiaries and Associates

The Group did not acquire or dispose of any material subsidiaries and associates during the period under review.

Charge of Assets

As at 30 June 2022, pledged bank deposits which amounted to US\$12,000,000 (31 December 2021: US\$17,000,000) were pledged to banks to secure against banking facilities.

HUMAN RESOURCES AND REMUNERATION POLICY

As of 30 June 2022, the Group had a total workforce of 311 employees*. About 35% of the workforce were based at the Hong Kong headquarters, with the rest located in Mainland China and Taiwan. Employee salary and other benefit increased to approximately US\$14.0 million during the Period from approximately US\$12.7 million in the first half of 2021, which represented an increase of 10.2%. The increase was because of the increase in average wages, bonus and the average number of employees. The Group’s remuneration policies are formulated on the performance of individual employees, which will be reviewed every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes for Hong Kong employees) and the government-managed retirement pension scheme (for Mainland China and Taiwan employees), medical and other insurance insurances, discretionary bonus is also awarded to employees according to the assessment of individual performance.

* Data excludes the testing center in Mainland 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 2022.

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 2022.

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 2022.

Review of Condensed Consolidated Interim Financial Information

The Audit Committee is composed of three 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 interim condensed consolidated 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 19 August 2022.

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

Hong Kong, 19 August 2022

As at the date of this announcement, the Board comprises: (a) Executive Directors – Mr. Wang Wah Chi, Raymond (Chief Executive Officer); (b) Non-executive Directors – Mr. Ma Yuchuan (Chairman), Mr. Wang Hui and Dr. Kang Jian; and (c) Independent Non-executive Directors – Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Dr. Chan Philip Ching Ho.

DEFINITIONS AND GLOSSARY

Board	Board of Directors
China	Mainland China, for the purpose of this report, excludes Hong Kong and Macau Special Administrative Regions
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
Group	The Company and its subsidiaries
HKAS	Hong Kong Accounting Standards
HK\$	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
LTPS	Low Temperature Polysilicon, a technology for the manufacturing of TFT-LCD
Metaverse	Metaverse is a digital reality that combines aspects of social media, online gaming, augmented reality (AR), virtual reality (VR), and cryptocurrencies to allow users to interact virtually
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
R&D	Product Design, development and engineering
S&D	Selling and Distribution
the Stock Exchange	The Stock Exchange of Hong Kong Limited
TDDI	Touch and Display Driver Integration
TFT	Thin Film Transistor
UK	United Kingdom
USA/US/United States	United States of America
US\$	US dollars
Virtual Reality (VR)	Virtual Reality is the use of computer technology to create a simulated environment