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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 2023**

FINANCIAL HIGHLIGHTS

- Revenue decreased by about 21.4% to US\$85.3 million
- Gross profit was US\$27.9 million, gross margin was 32.7%
- Profit attributable to owners of the parent was US\$13.2 million
- Earnings per share was 0.53 US cent (equivalent to 4.11 HK cents)

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 2023 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 2023

	Notes	Unaudited	
		Six months ended 30 June	
		2023	2022
		US\$'000	US\$'000
Revenue	4	85,334	108,548
Cost of sales		(57,393)	(66,344)
Gross profit		27,941	42,204
Research and development costs		(10,591)	(14,874)
Selling and distribution expenses		(1,272)	(1,984)
Administrative expenses		(3,771)	(3,954)
Other income and gains – net		32	290
		12,339	21,682
Finance income – net	6	902	13
		13,241	21,695
Share of (losses)/profits of associates		(76)	76
Profit before tax	5	13,165	21,771
Income tax expense	7	–	(13)
Profit for the period		13,165	21,758
Attributable to:			
– Owners of the parent		13,165	21,760
– Non-controlling interests		–	(2)
		13,165	21,758
Earnings per share attributable to ordinary equity holders of the parent: (in US cent)	8		
– Basic		0.53	0.87
– Diluted		0.53	0.87

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	US\$'000	US\$'000
Profit for the period	13,165	21,758
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	(2,434)	113
Total comprehensive income for the period	10,731	21,871
Attributable to:		
– Owners of the parent	10,731	21,873
– Non-controlling interests	–	(2)
	10,731	21,871

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		Unaudited	Audited
		30 June	31 December
		2023	2022
	Notes	US\$'000	US\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		4,470	5,089
Right-of-use assets		1,554	1,802
Investments in associates		892	968
Equity investment designated at fair value through other comprehensive income		1,161	1,161
Other receivables, prepayments and deposits	10	698	3,117
Total non-current assets		8,775	12,137
CURRENT ASSETS			
Inventories		36,054	48,221
Trade and other receivables, prepayments and deposits	10	37,857	46,308
Pledged bank deposits		6,067	6,041
Cash and cash equivalents		71,457	45,556
Total current assets		151,435	146,126
CURRENT LIABILITIES			
Trade and other payables	11	37,984	45,347
Interest-bearing bank borrowings		–	1,421
Lease liabilities		1,348	1,304
Tax payables		303	315
Total current liabilities		39,635	48,387
NET CURRENT ASSETS		111,800	97,739
TOTAL ASSETS LESS CURRENT LIABILITIES		120,575	109,876
NON-CURRENT LIABILITIES			
Lease liabilities		331	692
Total non-current liabilities		331	692
Net assets		120,244	109,184
EQUITY			
Equity attributable to owners of the parent			
Issued capital		32,166	32,149
Reserves		88,143	77,100
		120,309	109,249
Non-controlling interests		(65)	(65)
Total equity		120,244	109,184

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 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 (ESLs), 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 Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands (with effect from 1 October 2022) 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 15 August 2023.

2. Basis of preparation

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2023 (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 2022.

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 2022, except for the adoption of the following new and 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 new and revised HKFRSs for the first time for the current period’s financial information.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

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

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases and decommissioning obligations as at 1 January 2022, with any cumulative effect recognised as an adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases and decommissioning obligations that occurred on or after 1 January 2022, if any. The amendments did not have any significant impact on the financial position or performance of the Group.

- (d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

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\$85,334,000 for the six months ended 30 June 2023 (1H 2022: US\$108,548,000).

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, Japan, Europe and Taiwan.

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	US\$'000	US\$'000
Hong Kong	46,427	62,675
Mainland China	1,917	6,133
Taiwan	9,899	18,734
Japan	11,968	9,092
Europe	12,600	7,618
Korea	121	328
South East Asia	124	290
USA	2,113	3,341
Others	165	337
	85,334	108,548

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	
	2023	2022
	US\$'000	US\$'000
New Display ICs	39,847	49,731
OLED Display ICs	9,290	15,072
Mobile Display and Mobile Touch ICs	33,177	37,189
Large Display ICs	3,020	6,556
	85,334	108,548

(c) **Non-current assets**

	Unaudited	Audited
	30 June	31 December
	2023	2022
	US\$'000	US\$'000
Hong Kong	1,731	3,865
Mainland China	3,671	3,983
Taiwan	1,514	1,511
	6,916	9,359

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	
	2023	2022
	US\$'000	US\$'000
Property, plant and equipment		
Mainland China	122	1,625
Hong Kong	-	361
Taiwan	-	55
	122	2,041

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

(e) **Major customers**

For the six months ended 30 June 2023, the largest, second and third largest customers were located in Hong Kong, Japan and Europe, respectively. Sales amount to those customers were US\$32,566,000, US\$11,968,000 and US\$11,492,000, respectively, which were over 10% of the Group's total revenue. 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 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	
	2023 US\$'000	2022 US\$'000
Cost of goods sold	55,926	58,747
Provision for slow moving inventories	1,127	7,277
Amortisation of intangible assets	–	269
Depreciation of property, plant and equipment (note)	710	622
Depreciation of right-of-use assets	659	692
COVID-19 related rent concession from lessor	–	(78)
Foreign exchange differences, net	(1,564)	(712)

Note: Depreciation expense of US\$340,000 (1H 2022: US\$320,000) has been charged in cost of sales, US\$48,000 (1H 2022: US\$31,000) in research and development costs and US\$322,000 (1H 2022: US\$271,000) in administrative expenses.

6. Finance income – net

	Unaudited Six months ended 30 June	
	2023 US\$'000	2022 US\$'000
Interest income	934	82
Interest on bank loans	–	(22)
Interest on lease liabilities	(32)	(47)
	902	13

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	
	2023 US\$'000	2022 US\$'000
Current – Elsewhere		
– Charge for the period	–	13
Deferred income tax	–	–
Total tax charge for the period	–	13

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 2,494,642,406 (1H 2022: 2,493,446,274) ordinary shares in issue during the period.

The Group's profit for the period attributable to owners of the parent was US\$13,165,000 (1H 2022: US\$21,760,000).

(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 2023	2022
Weighted average number of ordinary shares in issue	2,494,642,406	2,493,446,274
Conversion of all dilutive share options outstanding (i)	354,297	1,283,976
Adjusted weighted average number of ordinary shares for diluted earnings per share calculation	2,494,996,703	2,494,730,250

- (i) Adjustment has been made for the six months ended 30 June 2023 in respect of a dilution on the 30,150,000 share options (six months ended 30 June 2022: 31,200,000 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

No dividend for the year ended 31 December 2022 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 2023 (six months ended 30 June 2022: Nil).

10. Trade and other receivables, prepayments and deposits

	Unaudited 30 June 2023 US\$'000	Audited 31 December 2022 US\$'000
Trade receivables	17,678	19,227
Trade receivables from related parties	5,011	4,534
Impairment	(173)	(214)
Trade receivables – net	22,516	23,547
Other receivables, prepayments and deposits	15,411	22,700
Prepayments to related parties	90	221
Impairment	(160)	(160)
Trade and other receivables, prepayments and deposits		
– current portion	37,857	46,308
Other receivables, prepayments and deposit		
– non-current portion	698	3,117
	38,555	49,425

As at 30 June 2023, 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 2023 US\$'000	Audited 31 December 2022 US\$'000
1–30 days	15,184	11,658
31–60 days	3,117	3,728
61–90 days	2,356	2,785
91–180 days	1,078	4,431
181–360 days	781	945
	22,516	23,547

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

	Unaudited 30 June 2023 US\$'000	Audited 31 December 2022 US\$'000
At beginning of period/year	214	220
Reversal of impairment losses	(41)	(6)
At end of period/year	173	214

11. Trade and other payables

	Unaudited	Audited
	30 June	31 December
	2023	2022
	US\$'000	US\$'000
Trade payables	13,935	15,807
Accrued expenses and other payables	15,596	17,825
Contract liabilities	5,773	6,346
Contract liabilities to a related party	1,250	4,224
Refund liabilities	1,430	1,145
	37,984	45,347

As at 30 June 2023, the ageing analysis of trade payables based on invoice date is as follows:

	Unaudited	Audited
	30 June	31 December
	2023	2022
	US\$'000	US\$'000
1–30 days	7,715	7,939
31–60 days	4,909	3,422
61–90 days	1,311	4,096
Over 90 days	–	350
	13,935	15,807

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Review

In the first half of 2023, the global economy was not recovering as expected. Combined with a persistent high level of inflation, it has led to a slow recovery in demand for consumer electronics and a continuation of the de-stocking trend in the semiconductor industry. Meanwhile, businesses were facing cost pressures while foundries were holding firm to their prices, thereby unable to timely alleviate the downward price pressure of end products. Under such circumstances, the Group's profitability during the period ended 30 June 2023 (the "Period") was inevitably affected, but it was still significantly better when compared to the second half of last year.

In the post-pandemic era, the Group has adopted a flexible strategy to actively adjust its product mix to cope with the complex and volatile market conditions. During the Period, the Group's sales revenue amounted to US\$85.3 million, representing a decrease of 21.4% over that of the same period last year (US\$108.5 million). Shipment volume for the Period was approximately 176.5 million units (first half of 2022: 170.3 million units).

New Display ICs

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

During the Period, revenue from the Group's New Display IC products decreased by 19.9%, mainly due to a slowdown in demand and keen competition in the market. On the demand side, retailers who are interested in switching to Electronic Shelf Labels (ESL) have been waiting for the launch of the new generation four-colour display, thus slowing down the sales of the current three-colour display labels; in the post-pandemic era, some retailers have experienced a drop in revenues under the high level of inflation, and with more manpower than before, the incentive to install ESL has slightly declined as compared to that during the pandemic. On the other hand, a lacklustre mobile phone market has prompted some semiconductor companies to switch their focus to electronic paper IC, which has resulted in increased competition and a reduction in such revenue of the Group.

ESL is not only prevailing in Europe and North America, but it is also becoming an emerging trend in other Asian countries. The Group has been a pioneer in developing ESL ICs for many years, and our customers include many of the world's top-ranked supermarkets. To further tap into the markets of e-Signage and e-Reader applications, the Group commenced mass production of the AMEPD driver IC for Advanced Colour e-Paper (ACeP) products in 2022, which is expected to have a wide application in 2024. The Group supported E Ink in developing the Display IC Solutions for Spectra™ 3100, a next-generation specialised platform for ESL and retail signage application in 2021. This significant technological breakthrough that enables a four-colour spectrum display has helped place the Group in a leading position in this huge market. Spectra™ 3100 is expected to be launched in the second half of 2023. In addition to ESL, the Group is also committed to expanding the application of IC products to other areas, such as translators and large retail signage applications. As global businesses are becoming more environmentally conscious, the Group believes that energy-efficient displays will be inevitable for future development, and the Group shall move towards multi-colour and large-size displays.

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 the world's number one PMOLED display driver IC player with a dominant market share in terms of unit of shipment 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 and are ideal display solutions for portable devices. During the Period, demand for PMOLED smart home appliances and healthcare products related to the COVID-19 pandemic, such as oximeters, shrunk due to the weakened consumer market and the subsiding of the COVID-19 pandemic.

The Group 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. The Group has launched the world's first small-sized passive matrix micro-LED display driver IC – SSD2363 during the Period, which can be applied to next-generation high brightness displays of 3 inches or less for wearable devices, home appliances and industrial appliances.

Mobile Display and Mobile Touch ICs

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

The Group pioneers the MIPI solutions for display with a series of proprietary features that support high-resolution, high-speed and low-power display of smart devices. In addition, the Group is co-developing a human interface display platform with a leading small-to-medium-sized TFT-LCD panel maker to leverage the Group's pioneering technologies in TDDI, targeting to enter mass production in the second half of 2023.

The demand for game console controller ICs that require more accurate controls, faster response and longer battery runtime is growing fast. Having anticipated the emerging market trend, the Group has made preparation in the sector by actively leveraging on its profound expertise in TDDI technology. The demand for the Group's game console controller and MIPI Bridge ICs remains steady, and we have successfully secured manufacturing orders into 2024, making a notable contribution to the Group's sustainable revenue base. The Group is also actively researching and developing the application of mobile display and mobile touch ICs to a wider range of areas, with a view to seizing opportunities when the economic environment recovers.

Large Display ICs

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

During the Period, the large screen market was affected by factors such as the post-pandemic era and sluggish market demand, which resulted in huge losses for panel makers and in turn, an unsatisfactory performance in the sales of Large Display ICs. However, the Group managed to carry out mass production of driver ICs for 23.8-inch gaming monitors with a high-refresh-rate of 100Hz and 43-inch smart HDTVs in conjunction with panel makers and international terminal brands. After the second half of 2023, it is expected that the inventory level of TV monitors will be substantially depleted. In the future, the Group will also leverage its research and development (R&D) capabilities to enhance its product value and visibility in the market, and continue to promote cooperation with domestic display screen manufacturers, while dedicating to the R&D of forward-thinking display driver IC technologies.

Product Development

The Group stresses the importance of novel product development to keep abreast of the rapid technology advancement and fast-moving trends. By leveraging our technological edge and pool of intellectual properties, we continue to expand our scope of collaboration. This strategy will enable our accelerated presence in the targeted fronts, leading us to the less explored space with promising rewards.

During the Period, the Group launched the world's first small-sized passive matrix micro-LED display driver IC – SSD2363. The product features high brightness and can be applied to three-inch or less 16.7M colour display according to customers' personalised needs. Moreover, the Group supported E Ink in developing the Display IC Solutions that enables a four colour spectrum display for Spectra™ 3100, a next-generation specialised platform for ESL and retail signage application. This product is expected to be launched in the second half of 2023.

To further expand the application of the Group's IC products in electronic paper, the Group is developing large display applications in addition to ESL, such as large colour electronic retail signage over the size of 20 inches, which is expected to commence mass production in the second half of 2024.

Outlook

In view of high global inflation and low consumer sentiment, the overall consumer electronics market is likely to experience a period of sluggish growth in the near term, and it is expected that the industry's de-stocking trend will come to an end by the end of 2023 when the demand side is expected to regain its upward momentum. As the effects of wafer price reductions start to be reflected in the second half of this year, the cost pressure on semiconductor companies will gradually ease, which will be favourable to our business development going forward.

With the anticipation that global economic activities will become more active in the second half of this year, there will be more opportunities for collaboration in product development between semiconductor companies and downstream players, which will represent a growth potential for the Group's business. Looking ahead, the Group will adopt a cautious yet flexible strategy for each of its business areas, with a view to capitalising on the rapid rebound of the market.

FINANCIAL REVIEW

Revenue and Results Overview

The Group recorded a decrease of about 21.4% in revenue to US\$85.3 million during the Period (1H 2022: US\$108.5 million). With the global supply chain is returning to normal and the supply of wafer stabilized, the group adjusted the average selling price of the group's products accordingly lead to decrease in revenue.

Gross profit of US\$27.9 million and gross margin of 32.7% were recorded during the Period (1H 2022: US\$42.2.million and 38.9%, respectively). The decrease in gross profit and gross profit margin was mainly attributable to the unproportionate decrease of the average selling price with some of the costs of the Group's products.

Selling and distribution expenses of US\$1.3 million and administrative expenses of US\$3.8 million represented an decrease by 35.9% and a drop of 4.6%, respectively, as compared to corresponding period in last year. The decrease in selling and distribution expense during the Period was due to the group's on-going stringent effective cost control measure, 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\$.

The Group has utilised the resources on the products that more adopt with the global market trend and market needs and remains selective in its product R&D spending. The R&D costs during the Period amounted to US\$10.6 million (1H 2022: US\$14.9 million), represent a decrease of 28.8%, the R&D costs to sales ratio for the Period was about 12.4% of the total revenue for the six months ended 30 June 2023 (1H: 2022:13.7%), a slight decrease of 1.3 percentage point when compared with the same period of last year. The Group is committed to its long-term development and has set a bold target in R&D for innovation to solidify the leading position in IC display industry.

The Group reported a net profit attributable to owners of the parent of US\$13.2 million during the Period (1H 2022: US\$21.8 million). The Board does not recommend a payment of an interim dividend for the six months ended 30 June 2023.

Despite the decrease in the net profit attributable to owners of parent in the first half of year 2023 when compared with the first half of year 2022, the Group is still able to manage a better net profit attributable to the owners of parent in the first half of year 2023 when compared with that of the second half of year 2022, which is mainly attributable to better product development strategies coping with market needs which in turn lead to a decrease in provision for slow moving inventories, and the Group will continue its on-going stringent effective cost controls measures to enhance operational efficiency.

Liquidity and Financial Resource

	Unaudited 30 June 2023 US'000	Audited 31 December 2022 US'000
Current assets	151,435	146,126
Current liabilities	39,635	48,387
Net current assets	111,800	97,739
Current ratio	3.82	3.02

The Group's current ratio was 3.82 as at 30 June 2023 (31 December 2022: 3.02), reflecting a strong liquidity in its financial position. The position of working capital representing by net current assets was US\$111.8 million (31 December 2022: US\$97.7 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\$934,000 (1H 2022: US\$82,000).

As a result, the Group recorded a net finance income of US\$902,000 (1H 2022: US\$13,000) 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\$77.5 million as at 30 June 2023 (31 December 2022: US\$51.6 million), an increment of US\$25.9 million, of which US\$6.1 million denominated in US dollars (31 December 2022: US\$6.0 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, New Taiwan dollars, Australian 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 2023, the Group had no major borrowing. 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 2023, capital expenditure of the Group was US\$122,000 (1H 2022: US\$2,041,000).

As at 30 June 2023, there was US\$1.3 million capital expenditure contracted but not provided for (31 December 2022: US\$0.7 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 2023, pledged bank deposits which amounted to US\$6.1 million (31 December 2022: US\$6.0 million) were pledged to banks to secure against banking facilities.

HUMAN RESOURCES AND REMUNERATION POLICY

As of 30 June 2023, the Group had a total workforce of 296 employees*. About 38% of the workforce were based at the Hong Kong headquarters, with the rest located in Mainland China and Taiwan. Employee salary and other benefit expenses decreased to approximately US\$12.7 million during the Period from approximately US\$14.0 million in the first half of 2022, which represented a decrease of 9.3%. The decrease was because of the decrease 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) or the government-managed retirement pension scheme (for Mainland China and Taiwan employees), medical and other 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 2023.

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 2023.

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 2023.

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 15 August 2023.

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

Hong Kong, 15 August 2023

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
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