SOLOMON
SYSTECH

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

2011 FINAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Sales amounted to US$51.6 million
- Gross profit margin was 30.5%
- Net loss was US$17.6 million
- Basic loss per share was 0.72 US cent (5.6 HK cents)
- Book to bill ratio for the year ended 31 December 2011 was about 1.0
- The Board of Directors resolved not to propose any final dividend for the year ended 31 December 2011

FINAL RESULTS

The Directors of Solomon Systech (International) Limited are pleased to announce the consolidated results of the Company and its subsidiaries for the year ended 31 December 2011 together with the comparative figures for the corresponding year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 US$'000	2010 US$'000
Sales	5	51,600	84,735
Cost of sales	6	(35,844)	(59,160)
Gross profit		15,756	25,575
Research and development costs	6	(17,227)	(15,083)
Selling and distribution expenses	6	(3,575)	(4,661)
Administrative expenses	6	(9,115)	(8,883)
Other income		148	56
		(14,013)	(2,996)
Finance income/(costs) – net	7	(1,582)	4,734
Share of results of associated companies		(1,994)	(997)
Profit/(loss) before income tax		(17,589)	741
Income tax (expense)/credit	8	(2)	299
Profit/(loss) attributable to the equity holders of the Company		(17,591)	1,040
Earnings/(loss) per share attributable to the equity holders of the Company: (expressed in US cent per share)	9		
- Basic		(0.72)	0.04
- Diluted		(0.72)	0.04
Dividend	10	—	—

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 US$'000	2010 US$'000
Profit/(loss) for the year	(17,591)	1,040
Other comprehensive income/(loss) for the year:		
- Currency translation differences	(233)	769
Total comprehensive income/(loss) attributable to the equity holders of the Company	(17,824)	1,809

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	2011 US$'000	2010 US$'000
ASSETS			
Non-current assets			
Goodwill and intangible assets		—	—
Prepaid operating lease		1,253	1,185
Property, plant and equipment		5,904	8,518
Investments in associated companies	11	7,533	990
Available-for-sale financial assets		2,506	2,506
Derivative financial instruments	11	442	—
		17,638	13,199
Current assets			
Inventories		7,087	13,778
Trade and other receivables	12	9,358	22,477
Financial assets at fair value through profit or loss		20,139	25,034
Other financial assets		2,476	1,278
Pledged bank deposits		130	130
Short-term fixed deposits		17,976	27,219
Cash and cash equivalents		51,660	51,102
		108,826	141,018
Total assets		126,464	154,217
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		31,658	31,619
Reserves			
Own shares held		(167)	(279)
Others		85,927	103,621
Total equity		117,418	134,961
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		7	35
Bank loan		572	686
Deferred income tax liabilities		50	50
		629	771
Current liabilities			
Obligations under finance leases		7	12
Trade and other payables	13	7,183	17,161
Bank loan		92	95
Deferred income		135	217
Current income tax liabilities		1,000	1,000
		8,417	18,485
Total liabilities		9,046	19,256
Total equity and liabilities		126,464	154,217
Net current assets		100,409	122,533
Total assets less current liabilities		118,047	135,732

NOTES TO THE CONSOLIDATED 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 applications for mobile phones, portable devices, LCD TV, consumer electronic products, industrial appliances and green energy applications such as LED lighting.

The Company was incorporated in the Cayman Islands on 21 November 2003 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and the address of its principal office in Hong Kong Special Administrative Region 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 consolidated financial information is presented in US dollars, unless otherwise stated. The consolidated financial information was approved for issue by the Board on 21 March 2012.

2. Key events

Beijing LED Lighting Engineering Co., Ltd., the associated company that the Group had 47% ownership as at 31 December 2010, proposed a fund raising of CNY10,000,000 (approximately US$1,546,000) to increase the capital contribution to CNY20,000,000 (approximately US$3,091,000) in March 2011. Following the decision of the Investment Committee of the Company, the Group decided not to participate in the said fund raising exercise. Approval Certificate for the revised ownership was obtained from the Beijing Municipal Government in May 2011 and the Group's percentage ownership was subsequently diluted to 23.5%. Equity method of accounting continues to be used for consolidating BJ-LED to the financial results of the Group.

A Subscription Agreement was entered by the Group on 9 August 2011 to subscribe for approximately 24.0% newly issued shares of C2 Microsystems Inc., an IC design company which specializes in the development and sales of multimedia SoC solutions for smart TV, at a cash consideration of US$9 million. The subscription was completed simultaneously with the execution of the Agreement. C2 has been accounted for under equity method of accounting.

3. Basis of preparation

The consolidated financial information of the Company has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and derivative financial instruments.

4. Significant accounting policies

The preparation of the consolidated financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New, revised and amended standards and interpretations to existing standards effective in 2011

The Group has adopted the following new, revised and amended standards and interpretations to existing standards that have been issued and are effective for the Group's financial year commencing on 1 January 2011:

• HKAS 24 (Revised)	Related party disclosures
• HKAS 32 (Amendment)	Classification of rights issue
• HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
• HK(IFRIC) - Int 19	Extinguishing financial liabilities with equity instruments
• HK(IFRIC) - Int 14 (Amendment)	Prepayments of a minimum funding requirement
• Various improvements to HKFRSs published by the Hong Kong Institute of Certified Public Accountants in May 2010	

The adoption of the new HKFRSs did not result in substantial changes to the accounting policies of the Group and had no material effect on how the results and financial positions for the current or prior accounting periods have been prepared and presented.

(b) New, revised and amended standards that are not effective and have not been early adopted by the Group

The following new, revised and amended standards have been issued, but not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group:

		Effective for annual periods beginning or after
• HKAS 1 (Amendment)	Presentation of items of other comprehensive income	1 July 2012
• HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	1 January 2012
• HKAS 19 (Revised)	Employee benefits	1 January 2013
• HKAS 27 (Revised 2011)	Separate financial statements	1 January 2013
• HKAS 28 (Revised 2011)	Investments in associates and joint ventures	1 January 2013
• HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities	1 January 2014
• HKFRS 9	Financial instruments	1 January 2015
• HKFRS 10	Consolidated financial statements	1 January 2013
• HKFRS 11	Joint arrangements	1 January 2013
• HKFRS 12	Disclosure of interests in other entities	1 January 2013
• HKFRS 13	Fair value measurement	1 January 2013
• HKFRS 1 (Amendment)	First-time adoption of HKFRSs - severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
• HKFRS 7 (Amendment)	Disclosures - transfers of financial assets	1 July 2011
• HKFRS 7 (Amendment)	Disclosures - offsetting financial assets and financial liabilities	1 January 2013

The Group has already commenced an assessment of the impact of the above new, revised and amended standards but is not yet in a position to state whether these new, revised and amended standards would have a significant impact to its results of operations and financial position.

5. Segment information

During the year 2011, the Group has been principally engaged in the design, development and sales of proprietary IC products and system solutions that enabled a wide range of display applications for mobile phones, portable devices, LCD TVs, consumer electronic products, industrial appliances and green energy applications such as LED lighting.

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 Group CEO (Managing Director). 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$51,600,000 and US$84,735,000 for the years ended 31 December 2011 and 2010 respectively.

The Company is domiciled in Hong Kong. The Group mainly operates in Hong Kong. The Group mainly sells to customers located in Hong Kong, Taiwan, Europe and Korea.

(a) Sales

	2011 US$'000	2010 US$'000
Hong Kong	17,719	19,878
Taiwan	8,837	12,857
Europe	7,944	4,725
Korea	6,678	31,761
China	3,756	8,782
Japan	3,080	3,561
South East Asia	2,414	1,814
USA	905	1,205
Others	267	152
	51,600	84,735

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

(b) Total assets

	2011 US$'000	2010 US$'000
Hong Kong	98,850	127,701
China	13,925	15,383
USA	7,438	21
Taiwan	5,288	9,771
Others	963	1,341
	126,464	154,217

Assets are listed based on where the assets are located. Others comprise Japan and South East Asia.

(c) Capital expenditures

	Prepaid operating lease		Property, plant and equipment		Investments in Derivative financial instruments		Investments in Associated companies	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Hong Kong	—	—	443	538	—	—	—	—
China	37	1,185	391	2,311	—	—	—	—
South East Asia	—	—	126	1,270	—	—	—	—
USA	—	—	—	—	463	—	8,537	—
Others	—	—	11	24	—	—	—	—
	37	1,185	971	4,143	463	—	8,537	—

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

6. Expenses by nature

Expenses included in cost of sales, research and development costs, selling and distribution expenses and administrative expenses are analyzed as follows:

	2011 US$'000	2010 US$'000
Cost of inventories sold	32,330	59,090
Product engineering costs	3,047	2,288
Gain on disposal of property, plant and equipment	(1)	(14)
Provision for obsolete or slow moving inventories	2,864	181
Provision for impairment of trade receivables	153	—
Auditor's remuneration	172	160
Operating leases for land and buildings	1,372	1,307
Amortization of prepaid operating lease	26	—
Depreciation of owned property, plant and equipment	2,972	2,993
Depreciation of leased property, plant and equipment	9	8
Employee benefit expenses (excluding Directors' emoluments)	19,243	16,797
Directors' emoluments	683	1,215
Net exchange gain	(284)	(62)

7. Finance income/(costs) - net

	2011 US$'000	2010 US$'000
Gain on disposal of an available-for-sale financial asset	—	3,186
Gain on disposal of financial assets at fair value through profit or loss	81	141
Interest income from deposits	1,108	1,167
Dividend income	308	240
Net unrealizable loss on derivative financial instruments	(21)	—
Net unrealizable gain or loss from financial assets at fair value through profit or loss:		
- Fair value gain	79	1,063
- Fair value loss	(3,287)	(1,123)
Interest element of finance leases	(1)	(1)
Interest expense of bank loan	(12)	(12)
Others	163	73
	(1,582)	4,734

8. Income tax

Hong Kong income tax has been provided at the rate of 16.5% (2010: 16.5%) while overseas income tax has been provided at the rates of taxation prevailing in the countries in which the Group operates. No provision for Hong Kong income tax has been made as the Group has no estimated assessable profits for the years ended 31 December 2011 and 2010.

	2011 **US$'000**	2010 US$'000
Current income tax:		
– Hong Kong	**—**	—
– Overseas	**2**	2
Write-back of income tax provision in prior years	**—**	(301)
Deferred income tax	**—**	—
Income tax expenses/(credit)	**2**	(299)

The tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the income tax rate of Hong Kong, the Group's principal place of operation, as follows:

	2011 **US$'000**	2010 US$'000
Profit/(loss) before income tax	**(17,589)**	741
Income tax calculated at a tax rate of 16.5%	**(2,902)**	122
Income not subject to tax	**(317)**	(831)
Expenses not deductible for tax purposes	**845**	334
Income tax losses not recognized	**2,376**	377
Write-back of income tax provision in prior years	**—**	(301)
Income tax expenses/(credit)	**2**	(299)

Deferred income tax assets are recognized for tax losses carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of US$7,986,000 (2010: US$5,611,000) in respect of losses amounting to US$48,403,000 (2010: US$34,006,000) that can be carried forward against future taxable profits. These tax losses have no expiry date.

9. Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The basic earnings/loss per share for the year is calculated based on the Group's loss in 2011 attributable to the equity holders of the Company of US$17,591,000 (2010 profit: US$1,040,000) and the weighted average number of 2,452,286,337 (2010: 2,442,244,818) ordinary shares in issue excluding own shares held during the year.

(b) Diluted earnings/(loss) per share

The diluted earnings/loss per share is calculated based on the Group's profit/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 including allocated but excluding unallocated own shares held during the year.

During the year ended 31 December 2011, the conversion of all dilutive share options outstanding and inclusion of allocated own shares held would have an anti-dilutive effect on the loss per share. Hence, there was no dilutive effect on the calculation of the diluted loss per share in 2011 (2010: 4,898,336 shares affected on the diluted earnings per share)

The information related to the weighted average number of ordinary shares is as follows:

	2011	2010
	Number of shares	
Weighted average number of ordinary shares in issue	2,452,286,337	2,442,244,818
Allocated own shares held under Share Award Scheme	1,102,927	6,935,562
Conversion of all dilutive share options outstanding	—	4,898,336
Adjusted weighted average number of ordinary shares for diluted earnings/loss per share calculation	2,453,389,264	2,454,078,716

10. Dividend

No dividend related to the years ended 31 December 2011 and 2010 was declared or paid during the year 2011. In addition, the Board resolved not to propose any final dividend for the year ended 31 December 2011.

11. Investments in associated companies

	2011 US$'000	2010 US$'000
At 1 January	990	4,493
Investment during the year	8,537	—
Transfer to available-for-sale financial assets	—	(1,951)
Share of results of associated companies	(1,994)	(427)
Provision for impairment loss	—	(1,125)
At 31 December	7,533	990

A Subscription Agreement was entered by the Group on 9 August 2011 to subscribe for approximately 24.0% newly issued shares of C2 at a cash consideration of US$9 million. The details of the net assets of C2 as of the date of subscription of the shares are as follows:

	Unaudited 2011 C2	
	Fair value US$'000	Carrying amount in the books of the associated company US$'000
Cash and cash equivalents	9,620	9,620
Intangible assets	33,631	1,156
Property, plant and equipment	349	349
Inventories	166	166
Trade and other receivables	1,077	1,077
Trade and other payables	(9,272)	(9,272)
Net assets	35,571	3,096
Share of fair value of net assets	8,537	
Share of fair value of derivative financial instruments	463	
Cash consideration	(9,000)	
Goodwill	—	

12. Trade and other receivables

	2011 US$'000	2010 US$'000
Trade receivables	6,492	13,242
Provision for impairment	(153)	—
Trade receivables - net	6,339	13,242
Receivables from related parties	57	85
Deposits, prepayments and other receivables[(i)]	2,860	9,150
Prepayments to related parties	102	—
	9,358	22,477

(i) The figure of 2010 included US$5,532,000 proceeds on disposal of an available-for-sale financial asset in the year 2010.

As at 31 December 2011, the Group's trade receivables from corporate customers were mainly on credit terms of 30 to 90 days. The ageing analysis of trade receivables not impaired (include receivables from related parties) based on overdue days is as follows:

	2011 US$'000	2010 US$'000
Current	4,106	10,876
1 - 30 days	1,806	2,330
31 - 60 days	448	120
61 - 90 days	10	—
91 - 180 days	26	—
181 - 365 days	—	1
	2,290	2,451
	6,396	13,327

As at 31 December 2011, trade receivables of US$2,290,000 (2010: US$2,451,000) were considered past due if measured strictly against the credit terms offered. The overdue sum was not impaired since the majority of the overdue sum has been settled after the balance sheet date.

As at 31 December 2011, US$153,000 of trade receivables was impaired and provided for (2010: Nil).

The ageing of these impaired receivables by overdue date is as follows:

	2011 US$'000	2010 US$'000
91 - 180 days	147	—
181 - 365 days	6	—
	153	—

Movements on the Group's provision for impairment of trade receivables are as follows:

	2011 US$'000	2010 US$'000
At 1 January	—	—
Provision for impairment of trade receivables	153	—
At 31 December	153	—

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2011 US$'000	2010 US$'000
USD	6,898	20,857
HKD	1,244	805
CNY	1,018	603
Other currencies	198	212
	9,358	22,477

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

13. Trade and other payables

	2011 US$'000	2010 US$'000
Trade payables	4,114	11,835
Accrued expenses and other payables[(i)]	2,863	5,311
Amounts due to related parties	206	15
	7,183	17,161

(i) The figure of 2010 included CNY6,222,000 (approximately US$943,000) balance payment of the prepaid operating lease in respect of the land use rights in Beijing, China.

As at 31 December 2011, the ageing analysis of the trade payables based on overdue days is as follows:

	2011 US$'000	2010 US$'000
Current	3,434	8,524
1 - 30 days	673	3,201
31 - 60 days	2	36
61 - 90 days	—	34
Over 90 days	5	40
	4,114	11,835

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2011 US$'000	2010 US$'000
USD	4,533	13,126
CNY	1,291	1,550
HKD	1,107	1,820
Other currencies	252	665
	7,183	17,161

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Sales and gross profit

For the year ended 31 December 2011, the Group's sales totaled US$51.6 million (2010: US$84.7 million), decreased by 39% over the previous year. The overall market demand was not strong in 2011 due to a cautious outlook for economic growth in the aftermath of the Japan earthquake and lingering European sovereign debt issues. The book to bill ratio maintained at about 1.0 (2010: 1.0). The Group recorded a 30% decrease year-on-year in shipment quantity and a 13% year-on-year decrease in the blended average selling price of its products.

Gross profit was US$15.8 million (2010: US$25.6 million) as a result of the drop in sales.

The Group's gross margin maintained at about 30.5% in 2011 (2010: 30.2%) notwithstanding a provision for obsolete or slow moving inventory amounted to US$2.9 million (including US$1.6 million on inventory scrap) which lowered the gross margin by 5.6 percentage points. The Group has redoubled its efforts to improve its manufacturing productivity through product yield improvement.

Costs and expenses

The Group's total expenses, including R&D costs, S&D expenses and administrative expenses, were US$29.9 million, up by US$1.3 million, of which US$0.7 million was related to the Group's one-time spending on the realignment of resources in late 2011.

The Group continued to invest in R&D and business development, and remained selective in its R&D spending. Its R&D costs were US$17.2 million, up 14% over the spending in 2010.

S&D expenses were lowered by 23% from US$4.7 million in 2010 to US$3.6 million in the current year.

Administrative expenses were US$9.1 million (2010: US$8.9 million).

Other income and finance income/costs - net

During the year 2011, the Group recorded interest income of US$1.1 million as well as dividends and other income of US$0.5 million from financial assets at fair value through profit or loss totaling US$1.6 million. However, a net unrealizable loss of US$3.2 million (2010: US$0.1 million) was recorded from the investment in the FVTPL portfolio as at 31 December 2011.

Net profit and loss

Taking into account US$2.0 million loss resulted from sharing the results of associated companies, the Group recorded a net loss attributable to the Company's equity holders of US$17.6 million (2010 profit: US$1.0 million).

Liquidity and Financial Resources

Total cash and bank deposits and equivalents of the Group amounted to US$72.1 million at 2011 year-end, compared to US$79.6 million (including other financial assets) as at 31 December 2010. The change in cash position was mainly a result of (1) net outflow from operations amounting to US$5.2 million resulted from loss for the year adjusted for non-cash items, notwithstanding the decrease in working capital; (2) receipt of US$5.5 million in early 2011 as the proceeds from the disposal of an available-for-sale financial asset in late 2010; (3) payment of US$1.0 million related to the prepaid operating lease in connection with the land use rights in Beijing, China; (4) addition of fixed assets US$1.0 million (5) subscription for approximately 24.0% newly issued shares of C2 at a cash consideration of US$9 million; (6) interest income received US$1.1 million; and (7) disposal of FVTPL US$1.8 million. As a result, net cash used in operating activities during the year was US$5.3 million (2010: US$2.4 million).

Regarding the use of cash reserves, the Group will continue to allocate funds for product development, securing production capacity, strengthening infrastructure in mainland China to broaden its customer base and capture market and sales opportunities, entering into strategic corporate ventures and meeting general corporate purposes. As at 31 December 2011, there was no major borrowing by the Group other than US$0.7 million in a mortgaged bank loan for the purchase of office property in Hsinchu, Taiwan in 2008. The Group's cash balance was mainly invested in various deposits at banks.

Most of the Group's trade receivables and trade payables are quoted in US dollars. The Group closely monitors 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 year, the Group did not use any derivative instruments to hedge against foreign currency exposure as the Directors considered the exposure to be insignificant.

The Board of the Company resolved not to propose any final dividend for the year ended 31 December 2011.

Capital Expenditure and Contingent Liabilities

The Group entered into a Subscription Agreement on 9 August 2011 to subscribe for approximately 24.0% newly issued shares of C2 at a cash consideration of US$9 million. The subscription was completed simultaneously with the execution of the Agreement and payment was made accordingly.

In 2011, other capital expenditure was US$1.0 million, the majority of which was related to the Group's set up in Beijing, purchase of equipment for the Group's manufacturing subsidiary in Dongguan and licenses for product developments.

As at 31 December 2011, there was about US$1.3 million capital expenditure approved but not contracted for and US$1.0 million capital expenditure contracted but not provided for in respect of the building construction in Beijing, China.

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

BUSINESS PERFORMANCE & OUTLOOK

Business Performance

In 2011, Solomon Systech shipped approximately 99.4 million display IC units, a year-on-year decrease of around 30% (2010: 142.2 million units). The reduction was primarily due to a cautious outlook towards economic growth translated into customer driven schedule delays and lower quantity orders. Despite the challenging business environment, there were still some product segments which reported strong growth during the year and have great development potential. The Group managed to achieve good progress in these focused areas and lay a strong foundation to facilitate future growth.

Shipment breakdown by business units was as follows:

Units Shipped (million)	**2011**	**2010**	**Change**
Mobile Display	**32.7**	72.1	(55%)
Advanced Display	**63.4**	67.0	(5%)
Large Display	**0.0**	0.0	—
Display System Solution	**3.0**	2.9	1%
Green Power	**0.3**	0.2	48%
Total	**99.4**	**142.2**	**(30%)**

Mobile Display

The Mobile Display business, which includes LCD driver ICs, capacitive touch panel controller ICs and display interface controller ICs, constituted around one-third of the total unit shipments, or 32.7 million units, in 2011, a year-on-year decline of approximately 55% (2010: 72.1 million units). Apart from the cautious outlook of customers, the decline was also due to the fact that the Group's Mobile Display business was in the process of shifting its focus from feature phones to higher-growth products, in particular smartphones and tablets. A number of these new products were still under development, or have just been launched in the second half of the year and have not yet been able to contribute significantly to business earnings.

The Group believes that there is huge market potential for smart electronic products, in particular smartphones and tablets with high definition, medium size display and multi-touch functions. In 2011, our capacitive touch panel driver IC business has quickly accounted for almost 5% of the total unit shipments in only its second year of commercial shipment.

To focus on the higher-growth business of display applications for smartphones, the Group has also added new innovative solutions to its display interface controller family for driving high resolution display applications, including high speed 4-lane MIPI display interface controllers which support AMOLED, a-Si LCD and LTPS advanced display panel technologies. Shipments for these high speed display interface controllers started in Q3 of 2011 and the Group has managed to win several potential high volume projects for the next two years.

Advanced Display

The Advanced Display product family, which includes OLED and e-paper display driver ICs, has become our main product family, contributing over 60% of the total unit shipments in 2011. During the year, the Advanced Display business unit shipped a total of around 63.4 million units, a slight decrease from 67 million units in 2010. The decline was mainly caused by fewer unit shipments of PMOLEDs resulting from a reduction in the demand for sub-displays of feature phones. Nonetheless, the e-paper display market has experienced satisfactory growth and we are optimistic about its market potential.

While continuing as the leader in the Passive Matrix OLED display ICs, the Group has strived to expand into new applications targeting different market segments, ranging from mobile phones and consumer electronics such as MP3 players, Bluetooth headsets and pocket WiFi, to industrial applications including power meters, USB bank keys, as well as office equipment and health care products. Executing this strategy, the Group has secured design-wins for name-card sized mobile phones, smartphones and health care products during the year.

As for its e-paper business, the Group maintains a positive view about its potentials. In 2011, the Group successfully secured additional world-leading electronic shelf label makers as customers. The Group intends to enrich the product portfolio of its e-paper business and also develop more advanced technologies to ensure that we stay ahead of the competition.

Large Display

The operation of the Large Panel business unit commenced in 2010. In 2011, the Large Display business unit completed design and qualification for source and gate driver ICs for large panel displays for a major manufacturer. Initial volume shipment of the products is expected in the first half of 2012. This transaction has not only laid the foundation for a long-term business relationship with the manufacturer as well as its holding group, but is also expected to open up new business opportunities covering their diverse products.

Display System Solution

Just below the Mobile Display business in terms of total unit shipments is the Display System Solution business unit, with approximately 3 million IC unit shipments in 2011, a slight increase from 2010 (2010: 2.9 million units).

The Display System Solution business unit has played a key role in the Group's success in transforming its business from IC component sales to delivering total system solutions. The solutions offered by this business unit, such as image processors and graphic controllers, support the latest consumer applications, including pico projectors, pocket projectors, mobile phones, baby monitors, MP4 players, IP cameras, digital photo frames and other portable consumer electronic devices. In 2011, the Group garnered a significant number of design-wins, including advanced 3D active shutter glasses, smart watches, Android MID and drive recorders, etc.

Most importantly, the Group has successfully secured some of the world's leading pocket projector brands as customers. Volume shipments of these products are expected to start in early 2012. Determined to capture the great market potential of pocket projectors, the Group has been working to incorporate the leading-edge technology of C2 to produce unique system solutions for smart projectors. We aim to further enhance the portfolio of our projector business segment and bring in new streams of revenue.

Green Power

In 2011, the Green Power business unit recorded a significant year-on-year increase in unit shipments of close to 50% owing to rising demand for LED lighting modules.

The Group sees a booming LED lighting market as energy saving has become a hot topic in recent years. In alignment with our strategy to stay focused on the higher-growth product segments, the Green Power business unit introduced various new products and solutions during the year, including offline LED driver ICs and LED tube power modules, and achieved design wins for LED lighting products including dimmable light bulbs, spotlights, streetlights and tube lights. The team also worked on the development of LED backlight solutions to support our target LCD customers.

The Group will continue to advance its technology and develop more new products to tap into this growing segment, in particular smart LED lighting and industrial LED lighting products. We believe that the Green Power business will be able to bring in new sources of revenue in the coming years.

Investing in Booming Smart TV Market

The Group entered into a Subscription Agreement on 9 August 2011 to subscribe for newly issued shares of C2, an IC design company which specializes in the development and sales of multimedia SoC solutions for Smart TVs. The investment is a strategic move aiming to capture the booming Smart TV market and also to enable the Group to capitalize on the synergies created to further strengthen the Group's overall competitiveness and business development. During the year, the Group worked closely with C2 and we expect to have volume shipment in 2012 to bring in additional sales revenue.

Outlook

In 2012, the Group will focus on developing selected product applications with higher-growth potential. Apart from investing more resources to strengthen technical competence in order to introduce more innovative and high quality products and system solutions, the Group will continue to enhance its sales and marketing as well as customer services aiming to increase outreach to these focused growth areas and build success. As at 31 December 2011, the Group registered a backlog of orders at around 23.3 million units for the first half of 2012.

Smartphones & Tablets

Recognizing the great market potential of smartphones and tablets, the Group will continue to shift its business focus from feature phones to higher-growth smartphones, in particular those with high definition, medium size display and multi-touch functions.

To achieve this, the Group aims to introduce more advanced multi-touch display technology, like in-cell touch sensing technology, and also further enhance its single-chip capacitive touch panel controller family as well as its high-speed display interface controller family targeting ultra-high resolution smartphones.

Smart TVs

With the first smart TV incorporating C2's innovative SoC already launched into the market in early 2012, the Group expects a sales contribution from this surging smart TV SoC market to begin very soon.

In addition to system solutions for smart TV, the Group has been developing system solutions for smart projectors, which will incorporate C2's smart TV technology, to cater for the burgeoning needs from commercial, educational and home-entertainment markets. The Group will ride on the success of its pocket projector business in 2011 to outreach to more leading customers.

Other Smart Devices

Apart from smartphones and smart TVs, the Group also plans to tap into the smart devices market, in particular electronic shelf labels which deploy e-paper display technology, and also intelligent LED lighting.

Having secured a few world-leading electronic shelf label makers as customers in 2011, the Group will expand into this growing segment in 2012. The Group will continue to enrich its product portfolio and also enhance related technologies to ensure that we stay ahead of the competition.

For LED lighting, the Group plans to launch smart LED lighting power ICs and modules, targeting international brands and the mid-range to high-end market which is expected to have the greatest growth potential.

Research and Development

Design, develop and engineering capability is a core competence of the Group. Continual investment in target areas testifies to the Group's determination to develop and offer innovative products, expand business, capture new opportunities and stay ahead of the competition. In 2011, the Group spent roughly US$17.2 million on R&D, representing about 58% of total expenses in 2011 and 33% of sales for the year. As at 31 December 2011, the Group had an R&D workforce of 229, representing approximately 53% of our entire staff. The personnel mix included IC designers and product engineers as well as system application and software engineers to meet the requirements for operating total system solution businesses.

Numerous IP Developed and Patents Granted

In 2011, many IP were developed or under development, including **(1) semiconductor IP** such as self-testing error correction for embedded display memory, multi-channel frame rate control, a high speed multi-channel MIPI/MDDI interface adapter, analog-to-digital converters with temperature sensing, an image processor for sharpness enhancement, color saturation enhancement, color correction and contrast enhancement, a temperature compensating oscillator, a 2D graphic accelerator for Android, a UHS-SD host controller, a MIPI-CSI2-receiver and multi-standard IR receiver/transmitter, etc; **(2) application IP** including low voltage multi-touch mutual capacitive sensing technology, self capacitance sensing technology, an enhanced inversion driving scheme for LCD displays, active power factor correction for dimmable LED lighting control and driving, a flexible e-paper display controller, a 3D shutter glass controller, a MIPI transmitter with dual output and a MIPI TCON with multiple source driver support, etc; and **(3) system IP** including 16-bits MCU debugger and programming tools, a touch panel application platform, multimedia framework for Android 2.3, a multimedia framework for Linux 2.6.x, a multimedia player for Linux 2.6.x, an optimized OpenGL ES library for Android 2.x, an optimized SKIE library for Android 2.x, a USB composite driver with audio/video support, a programmable Android launcher and low power management for embedded system, etc.

In 2011, the Group had eight patents granted for display driving IPs and two patent disclosures under drafting for filing at patent offices in the USA, China, Taiwan, and Korea. We also published a technical paper covering TFT source drivers for smartphones. Also, the Group released several articles to technology media to share our views about the global and China's electronics industry, as well as our know-how on capacitive touch panel, multimedia solutions for Android applications as well as dimmable LED solutions.

Optimization of Design Engineering Resources

At the end of 2011, as part of the overall strategy to stay focused to achieve success, the Design Engineering unit of the Group, which leads the R&D functions, has realigned its resources aiming to achieve optimized performance, streamline methodology and strengthen design capability and quality, in order to develop more innovative technologies and products to support the higher growth product segments more effectively and efficiently and also better service the needs of customers.

In addition to internal resources optimization, the Design Engineering unit of the Group also aims to strengthen collaboration with external parties, including academic institutions, industry and government organizations and private entities, to better leverage their respective strengths and to achieve synergies.

HUMAN RESOURCES

As at 31 December 2011, the Group had a work force of 436 employees, 45% were based in the Hong Kong head office with the rest located in China, Japan, Singapore, Taiwan and the USA. There was a 9% decrease in headcount compared to 2010 due to business and operations realignment.

As a technology company that relies on intellectual excellence, we highly value our human resources. To reward and retain talent, the Group offers competitive remuneration to employees and constantly provides employees with training, career development programs and a first-rate working environment to make sure they enjoy working with the Group and are motivated to contribute their efforts to the Group's success.

New product introduction bonus and first order awards, which aim at driving new product development and new businesses, remained in place. Selected employees were granted shares under the Share Award Plan, subject to vetting, to recognize their past performance and contribution, and as an incentive for their continuing contribution to the Group.

PURCHASE, SALE OR REDEMPTION OF 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 year ended 31 December 2011.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUER

The Company has complied with all applicable code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules of the Stock Exchange during the year ended 31 December 2011.

The Company has its own written guidelines on securities transactions by directors and relevant employees on no less exacting terms than the required standard set out in Appendix 10 of the Listing Rules of the Stock Exchange. Having made specific enquiry to all directors, all of them were in compliance with such guidelines during the year ended 31 December 2011.

REVIEW OF CONSOLIDATED FINANCIAL INFORMATION

The audit committee alongside with the internal audit team of the Company has reviewed the annual results of the Group for the year ended 31 December 2011. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Group's independent auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PwC HK in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC HK on the preliminary announcement.

FINAL DIVIDEND

The Board resolved not to propose any final dividend for the year ended 31 December 2011.

CLOSURE OF REGISTERS OF SHAREHOLDERS

The Register of Shareholders of the Company will be closed from Monday, 21 May 2012 to Thursday, 24 May 2012 (both days inclusive), during which no transfer of shares can be registered. In order to qualify for attending the 2012 Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar in Hong Kong, Tricor Investor Services Limited, 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 May 2012.

PUBLICATION OF FINAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by the Listing Rules of the Stock Exchange will be published on the Stock Exchange's website at www.hkexnews.hk and the Group's website www.solomon-systech.com.

DEFINITIONS

In this Announcement, unless the context requires otherwise, the expressions as stated below will have the following meanings:

"Subscription Agreement" /"Agreement"	the subscription agreement that the Group entered into on 9 August 2011 to subscribe approximately 24.0% newly issued shares of C2
"AMOLED"	Active-matrix organic light-emitting diode
"ASP"	Average selling price
"BJ-LED"	Beijing LED Lighting Engineering Co., Ltd., a company established in the PRC
"Board"	the Board of Directors of the Company
"C2"	C2 Microsystems Inc., a company incorporated under the laws of the State of Delaware, the United States of America
"China"	Mainland China
"CNY"	Chinese Yuan / Renminbi
"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
"FVTPL"	Financial assets at fair value through profit or loss
"Group"	the Company and its subsidiaries
"HK$" / "HKD"	Hong Kong dollars
"Hong Kong"	Hong Kong Special Administrative Region
"HKAS"	Hong Kong Accounting Standards
"HKFRS"	Hong Kong Financial Reporting Standards or collection of HKAS, HKFRS and HK(IFRIC)
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HK(IFRIC)"	Hong Kong International Financial Report Interpretation Committee
"IP"	Intellectual Property
"IC"	Integrated circuits
"LCD"	Liquid crystal display
"LCD TV"	Liquid-crystal display television
"LED"	Light-emitting diode
"Listing Rules"	The Rules Governing the Listing of Securities in the Stock Exchange
"MID"	Mobile Internet device
"new HKFRSs"	New, revised and amended standards and interpretations to existing standards
"PMOLED"	Passive-matrix organic light-emitting diode
"PwC HK"	PricewaterhouseCoopers, independent auditor of the Company
"R&D"	Design, development and engineering
"S&D"	Selling and Distribution
"SGD"	Singapore dollars
"SoC"	System-on-Chip
the "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US" / "USA"	United States of America
"US$" / "USD"	US dollars

On behalf of the Board
Solomon Systech (International) Limited
LEUNG Kwong Wai
Managing Director

Hong Kong, 21 March 2012

As at the date of this announcement, the Board comprises (a) Executive Directors - Dr. LEUNG Kwong Wai (Managing Director) and Mr. LAI Woon Ching; (b) Non-executive Directors - Dr. LAM Pak Lee (Mr. SHEU Wei Fu as his alternate), Mr. LI Xiaochun, Mr. LAI Weide and Mr. ZHAO Guiwu; and (c) Independent Non-executive Directors - Mr. SUN, Patrick (Chairman), Mr. CHOY Kwok Hung, Patrick, Mr. WONG Yuet Leung, Frankie and Mr. YIU Tin Chong, Joseph.