SOLOMON SYSTECH

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

2017 FINAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Sales increased by about 21% to US$82.5 million
- Gross profit was US$29.3 million, up by about 25% from last year
- Gross margin was 35.5%, up 1.1 percentage points
- Net loss was US$10.3 million
- Loss per share was 0.41 US cent (3.20 HK cents)
- Book-to-bill ratio was 1.1
- The Board of Directors resolved not to propose any final dividend for the year ended 31 December 2017

FINAL RESULTS

The Directors of Solomon Systech (International) Limited announce the consolidated results of the Company and its subsidiaries for the year ended 31 December 2017 together with the comparative figures for the corresponding year as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000
Sales	4(a)	82,464	68,408
Cost of sales	5	(53,148)	(44,878)
Gross profit		29,316	23,530
Research and development costs	5	(34,530)	(21,089)
Selling and distribution expenses	5	(3,265)	(3,164)
Administrative expenses	5	(11,910)	(11,738)
Other income – net	6	6,127	1,457
		(14,262)	(11,004)
Finance income – net	7	3,938	3,683
		(10,324)	(7,321)
Share of results of associated companies		22	(59)
Loss before income tax		(10,302)	(7,380)
Income tax (expense)/credit	8	(19)	451
Loss for the year		(10,321)	(6,929)
Loss for the year attributable to:			
- Equity holders of the Company		(10,233)	(6,929)
- Non-controlling interests		(88)	—
		(10,321)	(6,929)
Loss per share attributable to the equity holders of the Company: (expressed in US cent per share)	9		
- Basic		(0.41)	(0.28)
- Diluted		(0.41)	(0.28)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	2017 US$'000	2016 US$'000
Loss for the year	(10,321)	(6,929)
Other comprehensive loss for the year:		
Item that may be reclassified to profit or loss		
- Currency translation differences	(88)	(631)
Total comprehensive loss for the year	(10,409)	(7,560)
Total comprehensive loss for the year attributable to:		
- Equity holders of the Company	(10,324)	(7,560)
- Non-controlling interests	(85)	—
	(10,409)	(7,560)

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	2017 US$'000	2016 US$'000
ASSETS			
Non-current assets			
Intangible assets		**19,841**	16,740
Property, plant and equipment		**5,084**	3,223
Investments in associated companies		**515**	493
Available-for-sale financial assets		**2,206**	2,206
Prepayments and deposits	12	**180**	661
Financial assets at fair value through profit or loss		**788**	—
		28,614	23,323
Current assets			
Inventories		**20,527**	13,053
Trade and other receivables	12	**21,231**	17,514
Financial assets at fair value through profit or loss		**22,370**	36,985
Pledged bank deposits		**130**	130
Fixed bank deposits		**—**	727
Cash and cash equivalents		**23,347**	23,830
		87,605	92,239
Total assets		**116,219**	115,562
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**31,958**	31,926
Reserves		**59,188**	69,073
		91,146	100,999
Non-controlling interests		**662**	—
Total equity		**91,808**	100,999
LIABILITIES			
Non-current liabilities			
Bank loan		**207**	107
Deferred income tax liability		**366**	—
		573	107
Current liabilities			
Trade and other payables	13	**23,332**	13,759
Bank loan		**92**	86
Deferred income		**271**	522
Income tax		**143**	89
		23,838	14,456
Total liabilities		**24,411**	14,563
Total equity and liabilities		**116,219**	115,562

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 smartphones, tablets, smart TVs/monitors, notebooks and other smart devices, including wearables, healthcare devices, smart home devices, as well as industrial appliances, etc.

The Company was incorporated in the Cayman Islands on 21 November 2003 as an exempted company with limited liability under Cap.22, the Cayman Islands Companies Law (Law 3 of 1961, as consolidated and revised). The address of its registered office is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and the address of its principal office in Hong Kong is 6/F., No. 3 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

The Company has been listed on the main board of The Stock Exchange of Hong Kong Limited since 8 April 2004.

These consolidated financial information is presented in US dollars, unless otherwise stated.

2. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have 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.

3. Significant accounting policies

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

(a) New standards and amendments to standards effective in 2017

The Group has adopted the following new standards and amendments to standards that have been issued and are effective for the Group's financial year commencing on 1 January 2017:

•	HKAS 7 (Amendment)	Statement of Cash Flows – Disclosure Initiative
•	HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealized Losses
•	HKFRS 12 (Amendment)	Disclosure of Interest in Other Entities

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

There are no other new, revised standards, amendments to standards and interpretations to existing standards that are effective for the first time for this year that could be expected to have a material impact on the Group.

(b) New standards and amendments to standards and interpretations that are issued but effective for periods commencing after 1 January 2017

The following new standards and amendments to standards and interpretations have been issued, but not effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures	1 January 2019
HKFRS 1 (Amendment)	First Time Adoption of HKFRS	1 January 2018
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HKFRSs (Amendment)	Annual Improvement to HKFRSs 2015-2017 cycle	1 January 2019
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019

HKFRS 9 "Financial Instruments"

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group's financial assets currently measured at amortized cost or fair value through profit or loss will continue with their respective classification and measurements upon the adoption of HKFRS 9. The Group's equity investments currently classified as available-for-sale will be reclassified to financial assets at fair value through profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 'Revenue from Contracts with Customers', lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material changes to the impairment provision for trade receivables.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The impacts on the Group's financial results and position upon the adoption of HKFRS 9 are not expected to be material. The new standard is not expected to be applied by the Group until the financial year ending 31 December 2018.

HKFRS 15 "Revenue from Contracts with Customers"

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition: (1) Identify the contract(s) with a customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to each performance obligation; and (5) Recognize revenue when each performance obligation is satisfied.

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group had assessed the impact of adopting HKFRS 15 on the Group's consolidated financial statements, by identifying the separate performance obligations in the contracts with customers and allocating the transactions price, and considered the new guidance does not significantly affect the timing of the Group's revenue recognition.

HKFRS 16 "Leases"

HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to account for certain leases outside the balance sheet. Instead, all long-term leases must be recognized in the balance sheet in the form of assets (for the rights of use) and lease liabilities (for the payment obligations). Short-term leases with a lease term of twelve months or less and leases of low-value assets are exempt from such reporting obligations. The new standard will therefore result in recognition of a right-to-use asset and an increase in lease liabilities in the balance sheet. In the income statement, rental expenses will be replaced with depreciation and interest expense. The new standard is not expected to be applied by the Group until the financial year ending 31 December 2019.

The standard will affect primarily the accounting for Group's operating leases. As at 31 December 2017, the Group has non-cancellable operating lease commitments of US$1,357,000. Upon adoption of HKFRS 16, the majority of operating lease commitments will be recognized in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortized cost and the right-of-use assets will be depreciated on a straight-line basis during the lease term.

Other than HKFRS 9 "Financial Instruments", HKFRS 15 "Revenue from Contracts with Customers" and HKFRS 16 "Leases", there are no other standards and interpretations that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

4. Segment information

During the year, 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 applications for smartphones, tablets, smart TVs/monitors, notebooks and other smart devices, including wearables, healthcare devices, smart home devices, as well as industrial appliances, etc.

The Group has been operating in one single operating segment, i.e. the design, development and sales of proprietary IC products and system solutions.

The chief operating decision-makers have been identified as the Executive Directors and senior management led by the Chief Executive Officer. The Executive Directors and senior management reviewed the Group's internal reporting to assess performance and allocate resources. A management approach has been used for the operating segment reporting.

Sales amounted to US$82,464,000 and US$68,408,000 for the years ended 31 December 2017 and 2016 respectively.

The Company is domiciled in Hong Kong. The Group mainly operates in Hong Kong. During 2017, the Group's products were mainly sold to customers located in Hong Kong, Taiwan, China and Korea.

(a) Sales

	2017 US$'000	2016 US$'000
Hong Kong	22,885	22,102
Taiwan	22,410	23,189
China	12,260	11,872
Korea	10,501	1,640
Europe	5,762	4,480
Japan	5,193	1,931
South East Asia	1,759	2,227
USA	468	342
Others	1,226	625
	82,464	68,408

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

(b) Total assets

	2017 US$'000	2016 US$'000
Hong Kong	67,863	84,589
China	27,387	18,462
Taiwan	12,754	6,656
Korea	7,050	859
United Kingdom	987	1,265
South East Asia	69	3,604
Others	109	127
	116,219	115,562

Assets are listed based on where the assets are located. Others mainly comprise Japan and the USA.

(c) Capital expenditures

	2017 US$'000	2016 US$'000
Intangible assets		
China	2,500	—
Hong Kong	—	17,000
	2,500	17,000
Property, plant and equipment		
China	1,197	224
Taiwan	924	—
United Kingdom	801	—
Hong Kong	55	300
Others	40	2
	3,017	526
	5,517	17,526

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

(d) Major customers

For the year ended 31 December 2017, sales of US$10,504,000 were derived from a single external customer under Taiwan segment which were over 10% of the Group's total sales. For the year ended 31 December 2016, the largest customer was under Taiwan segment and the second largest customer was under Hong Kong segment. Their sales were US$11,871,000 and US$8,901,000 respectively which were both over 10% of the Group's total sales.

5. Expenses by nature

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

	2017 US$'000	2016 US$'000
Cost of inventories sold	47,486	41,731
Product engineering costs	5,244	5,380
Provision for obsolete or slow moving inventories	3,454	746
Amortization of intangible assets	3,612	298
Depreciation of owned property, plant and equipment	1,284	843
Operating leases for land and buildings	1,918	1,522
Auditor's remuneration		
- Audit services	234	197
- Non-audit services	25	24
Employee benefit expenses (including directors' emoluments)	32,390	23,269
Net exchange loss	54	340

6. Other income – net

	2017 US$'000	2016 US$'000
Government grant	5,883	1,398
Gain/(loss) on disposal of property, plant and equipment	24	(1)
Others	220	60
	6,127	1,457

7. Finance income – net

	2017 US$'000	2016 US$'000
Interest income	814	1,511
Dividend income	347	845
Gain on disposal of FVTPL	809	1,530
Net realized income	1,970	3,886
Fair value gain from FVTPL	2,900	1,220
Fair value loss from FVTPL	(928)	(1,421)
Net unrealized gain/(loss) from FVTPL	1,972	(201)
Interest expense of bank loan	(4)	(4)
Others	—	2
	3,938	3,683

8. Income tax

Hong Kong income tax has been provided at the rate of 16.5% (2016: 16.5%) while overseas income tax has been provided at the rates of taxation prevailing in the countries in which the Group operates.

	2017 US$'000	2016 US$'000
Current income tax:		
- Hong Kong	—	—
- Overseas	62	1
Reversal of income tax provision in prior years	—	(452)
Deferred income tax	(43)	—
Income tax expense / (credit)	19	(451)

9. Loss per share

(a) Basic loss per share

The basic loss per share for the year is calculated based on the Group's loss in 2017 attributable to the equity holders of the Company of US$10,233,000 (2016: US$6,929,000) and the weighted average number of 2,478,135,913 (2016: 2,477,102,351) ordinary shares in issue during the year.

(b) Diluted loss per share

The diluted loss per share is calculated based on the Group's loss attributable to the equity holders of the Company and the weighted average number of ordinary shares after adjusting for the effects of all dilutive potential ordinary shares including allocated but excluding unallocated own shares held during the year.

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

	Number of shares	
	2017	2016
Weighted average number of ordinary shares in issue	2,478,135,913	2,477,102,351
Conversion of all dilutive share options outstanding(i)	—	—
Adjusted weighted average number of ordinary shares for diluted loss per share calculation	2,478,135,913	2,477,102,351

(i) As at 31 December 2017, there were 31,600,000 (2016: 44,050,000) share options outstanding which could potentially have a dilutive impact but were anti-dilutive for the year then ended. Hence, there was no dilutive effect on the calculation of the diluted loss per share for the year ended 31 December 2017 and 2016.

10. Dividend

No dividend for the years ended 31 December 2017 and 2016 was declared or paid by the Company. In addition, the Board resolved not to propose any final dividend for the year ended 31 December 2017.

11. Business combinations

On 22 February 2017, the Group acquired 52% of the issued shares and a call option to acquire the remaining 48% of the equity interests in Sentron, Inc., a company that is a design and development house of ICs for display applications, for a consideration of US$4,000,000. The acquisition is expected to increase the Group's market share by product developments.

The goodwill of US$2,317,000 arises from a number of factors, including expected synergies through combining a highly skilled workforce, obtaining greater production efficiencies through knowledge transfer, and unrecognized assets such as the workforce. None of the goodwill recognized is expected to be deductible for income tax purposes.

The following table summarizes the consideration paid for Sentron, Inc., and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

	Note	22 February 2017 US$'000
Cash paid		4,000
Less: Fair value of call option over non-controlling interests	a	(874)
Total consideration		3,126
Recognized amounts of identifiable assets acquired and liabilities assumed		
– Intangible assets		1,896
– Property, plant and equipment		19
– Cash and cash equivalents		33
– Trade and other receivables		264
– Inventories		13
– Trade and other payables		(86)
– Deferred income tax liabilities		(409)
– Bank loan		(174)
Total identifiable net assets		1,556
Non-controlling interests	b	(747)
Goodwill		2,317
Total consideration		3,126
Acquisition-related costs (included in administrative expenses in the consolidated income statement)		75
Cash paid		4,000
Less: Cash and cash equivalents acquired		(33)
Net cash outflow on acquisition		3,967

(a) Call option over non-controlling interests

Pursuant to the share purchase agreement entered into between the Group and the shareholders of Sentron, Inc., the Group was granted a call option to acquire part or all of the remaining 48% equity interests in Sentron, Inc. The call option is divided into four batches, each representing 12% equity interests in Sentron, Inc. Each of the four batches would become exercisable after the years ending 31 December 2018, 2019, 2020 and 2021, respectively. The exercise price of each batch would be determined based on the performance targets for the respective financial years and the total consideration for the remaining 48% equity interests is capped at US$4,000,000.

The fair value of the call option was determined by using the Monte Carlo simulation model with the following key assumptions:

	31 December 2017	22 February 2017
Risk-free interest rate	1.85% - 2.24%	1.55% - 1.85%
Volatility	50%	50%
Dividend yield	0%	0%
Price to sales ratio	1.0	0.99
Expected option life (year)	1.4 - 4.0	1.5 - 4.5

(b) Non-controlling interests

The non-controlling interests were recognized at their proportionate share of the recognized amounts of identifiable net assets in Sentron, Inc.

(c) Revenue and profit contribution

Sentron, Inc. contributed no revenues and net loss of US$1,168,000 to the Group since acquisition date. If the acquisition had occurred on 1 January 2017, consolidated revenue and consolidated loss for the year ended 31 December 2017 would have been US$82,464,000 and US$10,552,000 respectively.

12. Trade and other receivables

	2017 US$'000	2016 US$'000
Trade receivables	15,491	13,171
Trade receivables from related parties	1,696	1,465
Trade receivables – net	17,187	14,636
Deposits, prepayments and other receivables	3,810	2,595
Prepayments to related parties	234	283
Trade and other receivables – current portion	21,231	17,514
Prepayments and deposits – non-current portion	180	661
	21,411	18,175

As at 31 December 2017, 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 based on overdue day is as follows:

	2017 US$'000	2016 US$'000
Current	10,805	10,751
1 - 30 days	4,490	3,592
31 - 60 days	1,370	293
61 - 90 days	519	—
91 - 180 days	3	—
	6,382	3,885
	17,187	14,636

As at 31 December 2017, trade receivables of US$6,382,000 (2016: US$3,885,000) were considered past due if measured against the credit terms offered. As at 31 December 2017, all the overdue balances are not impaired since most of the overdue balances have been settled after the balance sheet date.

As at 31 December 2017 and 2016, no trade receivables were impaired and provided for.

13. Trade and other payables

	2017 US$'000	2016 US$'000
Trade payables	15,636	8,398
Other payable to a related party	—	55
Accrued expenses and other payables	7,696	5,306
	23,332	13,759

At 31 December 2017, the ageing analysis of the trade payables based on overdue day is as follows:

	2017 US$'000	2016 US$'000
Current	11,526	7,006
1 - 30 days	3,692	1,096
31 - 60 days	272	178
61 - 90 days	—	28
Over 90 days	146	90
	15,636	8,398

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

For the year ended 31 December 2017, the Group's total sales were US$82.5 million (2016: US$68.4 million). A net loss of US$10.3 million (2016: US$6.9 million) was recorded mainly due to a one-off write-off of obsolete inventories, and an increase in the Group's investment cost and related amortization expenses for the development of an array of new products.

Sales and Gross Profit

The Group recorded an increase in total shipments by around 15% year-on-year to approximately 215.2 million units (2016: 187.3 million units). The overall book-to-bill ratio of the Group for 2017 was 1.1 (2016: 1.0).

With the strong growth in the sales of the Group's TDDI and PMOLED display driver ICs in 2017, total sales increased by approximately 21% year-on-year to around US$82.5 million (2016: US$68.4 million).

Despite the intense price competition in the market, the gross margin increased by 1.1 percentage points to 35.5% (2016: 34.4%) attributed to a change in the product mix of the Group. The gross profit of the Group was increased to US$29.3 million (2016: US$23.5 million).

Costs and Expenses

The Group has remained vigilant in controlling its expenses but as a technology company, it is committed to investing in product R&D and business development. The Group's total expenses, including product R&D costs, S&D expenses and administrative expenses, were US$49.7 million (2016: US$36.0 million), up by US$13.7 million, representing an increase of 38% year-on-year.

The Group continued to invest in product R&D and business development and remained selective in its product R&D spending. To strengthen new technology development and new product introduction, and also enhance customer outreach activities, its product R&D costs in the year increased US$13.4 million to US$34.5 million (2016: US$21.1 million), up 64% year-on-year. Product R&D costs to sales ratio was 41.8% (2016: 30.8%).

S&D expenses were US$3.3 million (2016: US$3.2 million) whilst the S&D expenses to sales ratio was 4.0% (2016: 4.6%).

Administrative expenses were US$11.9 million, increased by US$0.2 million from US$11.7 million in 2016.

Other Income – Net

Other income in 2017 totalled US$6.1 million (2016: US$1.5 million) comprising mainly government subsidies for the product R&D projects of the Group.

Finance Income – Net

The Group has invested in financial assets as part of its treasury management for interest and dividend income. During 2017, the Group recorded an interest income of US$0.8 million (2016: US$1.5 million) and a dividend income of US$0.3 million (2016: US$0.9 million). On top of these, US$0.8 million (2016: US$1.5 million) was gained from disposal of certain securities and funds, making altogether a total realized income of US$1.9 million (2016: US$3.9 million).

The Group's financial assets at fair value through profit or loss ("FVTPL Portfolio") are stated at fair value. The fair value of the FVTPL Portfolio traded in active markets is based on quoted market prices as at the reporting date. The FVTPL Portfolio as at balance sheet date based on the mark-to-market prices as at 31 December 2017 recorded a net unrealized gain of US$2.0 million (2016: net unrealized loss US$0.2 million).

As a result, the Group recorded a net finance income of US$3.9 million (2016: US$3.7 million) from treasury investment.

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 teleconferences with individual external portfolio managers and holds internal review meetings to evaluate and monitor the investment performance. A majority of the FVTPL was under external professional portfolio management as at 31 December 2017.

To support strategic investment and expansion for product portfolio and business, the Group has disposed of approximately 40% of the investment in financial assets to meet the cash requirement during 2017.

With the FVTPL Portfolio maintained as of 31 December 2017 consists mainly of marketable bonds, mutual funds, exchange trade funds and listed equity securities held through reputable financial institutions including Citibank, Goldman Sachs, UBS and Hang Seng Bank, the Group expects a stable stream of income to be sustained.

Net Profit and Loss

For the year ended 31 December 2017, the pre-tax loss was US$10.3 million (2016: US$7.4 million). The loss attributable to the equity holders of the Company was US$10.2 million (2016: US$6.9 million), mainly because of the increase in R&D expenses and inventory written off.

Liquidity and Financial Resources

As at 31 December 2017, total cash and cash equivalents and bank deposits of the Group amounted to US$23 million (2016: US$25 million). Net cash used in operating activities during the year was US$10.3 million (2016: US$13.2 million). The cash outflow in operating activities was mainly due to the loss before income tax of US$10.3 million and the increase in working capital requirement, which, comprising net of receivables, inventories and payables, amounted to US$1.2 million.

Regarding the use of cash reserves, the Group will continue to allocate funds for product development, securing production capacity, strengthening its infrastructure in China and Taiwan to broaden its customer base and capture market and sales opportunities and entering into strategic corporate ventures and meeting general corporate operational purposes. As at 31 December 2017, the Group had no major borrowing other than the US$0.1 million in a mortgage loan for the office property in Hsinchu, Taiwan, and the non-current bank loan of US$0.2 million in the newly acquired Korean subsidiary. 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 year under review, the Group did not use any derivative instruments to hedge against foreign currency exposure in operation as the Directors considered this exposure to be insignificant.

BUSINESS REVIEW AND OUTLOOK

BUSINESS REVIEW

The Group recorded an increase in total revenue in 2017 of around 21% year-on-year to approximately US$82.5 million, while total shipments were up by around 15% year-on-year to around 215.2 million units. The increase in both sales and shipments was concrete proof that the strategic initiatives implemented since 2016 have started to bear fruit.

In 2017, the Group has continued to invest in enhancing technological capability and bolstering product innovation. Subsequent to setting up the Korea Technology Center and further strengthening the Taiwan Technology Center at the beginning of the year, the Group has established Solomon Systech (China) Limited (or Nanjing Technology Center (NJTC)) in Nanjing Jiangbei New District in November. The NJTC plays the strategically important role as the Group's business center in China to drive business development in this key market, apart from enhancing relationships with key customers and business partners and reinforcing technological capabilities.

In addition to this important milestone, the Group has launched a total of 13 new products, and also garnered design-in projects and major design-wins with international brands that are expected to start mass production in 2018 and contribute to the revenue and operating profit.

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

Sales (US$ million)	2017	2016	Change
Main Display	**41.3**	31.6	31%
Advanced Display	**41.2**	36.8	12%
Total	**82.5**	68.4	21%

Main Display

The Main Display Business Unit ("MDBU") provides In-Cell TDDI ICs, In-Cell, On-Cell and Out-Cell touch controller ICs, TFT LCD display driver ICs and MIPI bridge ICs targeting smart mobile devices; as well as TFT LCD display driver ICs for large-display products, including TVs, monitors, notebooks, tablet PCs, etc.

During the year under review, the total sales of MDBU surged by about 31% year-on-year to approximately US$41.3 million (2016: US$31.6 million). This was mainly attributed to the contributions of In-Cell TDDI ICs and touch controller ICs. The large display driver IC business has also achieved a major year-on-year revenue increase.

The market leading touch controller ICs managed to score design wins for applications including smartphones, smart watches, tablets and video game console controllers of key international brands, and have also been designed-in a number of products planned to start mass production in 2018.

The Group's In-Cell TDDI IC for FWVGA display has continued to contribute to revenue growth, while that supporting narrow bezel Full High-definition (FHD+) (1080 x 2160) display has been designed-in smartphones by some independent design houses. During 2017, MDBU has developed a breakthrough TDDI supporting FHD+ (1080 x 2160) In-Cell LTPS panels, aiming to capture the new market trend of high resolution smartphones with a bezel-less screen and a higher aspect ratio.

The MDBU has also started the development of a number of new products during the year, including an AMOLED display driver IC, and also new TDDIs supporting FHD+ LTPS panels and HD+ IGZO/a-Si panels respectively.

The Group's Embedded DisplayPort (eDP)-to-MIPI bridge IC has garnered design wins including a leading international notebook brand, while its MIPI bridge IC targeting test jig applications has continued to contribute to the sales revenue.

With regard to large display driver ICs, the sales in 2017 have achieved double-digit growth year-on-year. The Group has successfully designed-in projects for TVs of different resolutions from HD to UHD and various sizes from 38.5” to 64.5”, and has also passed the screening and testing requirements and has been enlisted as a qualified supplier of a new customer.

Advanced Display

The Advanced Display Business Unit (“ADBU”) includes PMOLED display and OLED lighting products, as well as bistable products. In addition to standard ICs, the ADBU also provides custom IC design services, including analog, mixed-signal and high-voltage IC designs to cater for the specific needs of customers.

The sales of ADBU products in 2017 maintained growth momentum with an increase of about 12% year-on-year to approximately US$41.2 million (2016: US$36.8 million).

As the world’s market leader of PMOLED display driver ICs, the Group has continued to score design wins with international brands leveraging fast-growing applications, including wearables, smart home appliances, 4K set-top boxes, healthcare devices, etc. Its newly launched product supporting high resolution color display for wristbands has started mass production in the second half of 2017.

Capitalizing on the trend of unmanned stores and increasing automation of supermarkets and stores, in particular in China, the Group has managed to further grow its bistable display IC business for ESL applications. The Group has also further extended its application portfolio to keyboards, scoreboards, tags for logistics asset management, etc.

OUTLOOK

The start of 2018 shows signs of growing market confidence. The key application markets of the Group’s products, including wearables, ESLs and smart handheld devices in particular, are expected to exhibit strong growth momentum.

With the array of new products launched and in the pipeline, the design-wins and design-in projects expected to boost revenue growth, and most importantly, the establishment of the strategic China business and technology center in Nanjing, together with the greatly strengthened R&D talent pool, the Group is now favorably positioned to boost business growth.

Main Display

The key growth drivers of the MDBU in 2018 are expected to be touch controller ICs, TDDI IC and also large display driver ICs.

The Group’s touch controller ICs, having won a number of key design-wins and design-in projects in 2017, are scheduled to commence mass production in 2018 and will contribute to revenue generation. The Group will also strive to achieve more design-wins in particular for its AMOLED touch controller ICs to capture the opportunities from the rapid surge in production capacity in China. Moreover, the Group will leverage its strengthened R&D team to facilitate new product development to better capture the market trend. A new touch controller IC supporting foldable AMOLED panels and new TDDI ICs for FHD+ and HD+ “infinity screens” reaching an aspect ratio of 21:9 are expected to be launched in 2018.

The Group will further enhance its efforts in reaching out to key and potential customers, in particular targeting independent design houses for top brand smartphones, in order to boost the business growth of its new TDDI solutions.

The establishment of the NJTC is expected to enhance both the Group’s collaboration with its current customer, Panda-FPD, as well as efforts in reaching out to new customers. The Group strives to increase its share in the current customer’s business and also achieving design wins with potential customers in the PRC.

Advanced Display

The growing wearables market is expected to underpin the business growth of the Group's PMOLED display driver ICs. The Group is ready to capture the shift of the display trend from monochrome to color for wristbands. More new products targeting color wristband displays are to be launched. The Group continues working with top international wristband brands on design-in projects for the next generation wristbands, while making inroads into other applications with strong growth potential, in particular smart handheld devices and smart home appliances, with a view to further extending the revenue stream. The Group is also developing other new products, including TDDI for PMOLED panels, to further enhance consumer experience through improved display quality, narrow bezel and thinner form-factor design.

In terms of bistable display driver ICs, the Group targets to achieve more design wins for its ESL business, in view of the growing adoption of ESL, and the surging trend of supermarket and store automation. The Group also aims to further develop the new display application markets.

PRODUCT DEVELOPMENT

In 2017, the Group has set up new technology centers in Korea, Taiwan and Nanjing to enhance its R&D capability, in addition to developing new products and enhancing the features of existing products. In 2017, the Group spent roughly US$34.5 million on R&D, representing about 69.4% of total expenses and 41.8% of sales for the year.

The Group's product R&D engineering teams possess domain expertise in various areas, spanning from design of high-speed serial master bridges, TDDIs, In-Cell and On-Cell touch controller ICs and OLED lighting driver ICs, to display drivers for various panel technologies such as amorphous silicon TFT, metal-oxide TFT, LTPS, POLED, AMOLED, PMOLED and AMEPD. This wide array of critical knowhow enables fast fulfillment of customers' increasingly sophisticated requirements.

IP DEVELOPMENT

The IPs that have been developed or were under development during 2017 included, among others, a smart power reduction technology, a power and time reduction scheme, and also an In-Cell touch sensing frontend technology for PMOLED display, a lossless image data compression scheme for ePaper, a panel diagnostic technology for ESLs, and a high speed serial interface for large display.

During the year, the Group has been granted 16 patents and filed 29 patents covering various display design and application areas. The Group has been encouraging patent application and filing, with a view to further strengthening its intellectual property portfolio to facilitate business growth in the future.

HUMAN RESOURCES

As of 31 December 2017, the Group had a total workforce of 492 employees, including its manufacturing subsidiary in China. In terms of workforce composition, we have continued to increase the headcount for product development to be in line with our focus on new product innovation. Of the total workforce, around 40% were based in the Hong Kong head office with the rest located in China, Japan, Korea, Taiwan and the UK.

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 2017.

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

For the year ended 31 December 2017, the Company has complied with all the applicable Code Provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules ("Appendix 14"). To maintain high standards of corporate governance, the Company has adopted the recommended best practices in Appendix 14 where appropriate.

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 the Model Code contained in Appendix 10 of 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 year ended 31 December 2017.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The audit committee alongside with the corporate audit team of the Company has reviewed the annual results of the Group for the year ended 31 December 2017. The figures in respect of the Group's consolidated balance sheet, consolidated income statement, and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

FINAL DIVIDEND

The Board resolved not to propose any final dividend for the year ended 31 December 2017.

CLOSURE OF REGISTERS OF SHAREHOLDERS

The Register of Shareholders of the Company will be closed from Friday, 1 June 2018 to Tuesday, 5 June 2018 (both days inclusive), during which no transfer of shares can be registered. In order to qualify for attending the 2018 Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Center, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 31 May 2018, Hong Kong time.

PUBLICATION OF FINAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE AND THE COMPANY'S WEBSITE

All the annual financial and other related information of the Company required by the Listing Rules has been published on the Stock Exchange's website (*www.hkex.com.hk*) and the Company's website (*www.solomon-systech.com*) on 13 March 2018.

DEFINITIONS AND GLOSSARY

AMEPD	Active Matrix Electrophoretic Display
AMOLED	Active Matrix Organic Light Emitting Diode
Board	Board of Directors
CEC	China Electronics Corporation, a state-owned information technology conglomerate under the administration of the central government of the PRC, a substantial shareholder of the Company through its interests in Huada Semiconductors Co. Ltd.
China	Mainland China
Code Provision(s)	Code provision(s) in the Corporate Governance Code contained in Appendix 14 to the Listing Rules
Company	Solomon Systech (International) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
Director(s)	The director(s) of the Company
EPD	Electrophoretic Display
ESL	Electronic Shelf Label
FHD	Full High Definition, a display resolution standard of 1920 x 1080 pixels
FVTPL	Financial assets at fair value through profit or loss
FWVGA	Full Wide Video Graphics Array, a display resolution standard of 854 x 480 pixels
Group	The Company and its subsidiaries
HD	High Definition, a display resolution standard of 1280 x 720 pixels
HK$/HKD	Hong Kong dollars
HKAS	Hong Kong Accounting Standards
HKFRS	Hong Kong Financial Reporting Standards, or collectively for HKAS and Hong Kong Financial Reporting Standards
Hong Kong/HK/HKSAR	Hong Kong Special Administrative Region
IC	Integrated Circuit
IGZO	A semiconductor material consisting of indium (In), gallium (Ga), zinc (Zn) and oxygen (O)
IP	Intellectual Property
LCD	Liquid Crystal Display
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
LTPS	Low Temperature Polysilicon, a technology for the manufacturing of TFT-LCD
MIPI	Mobile Industry Processor Interface
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
OLED	Organic Light Emitting Diode
Panda-FPD	Nanjing CEC Panda Flat Panel Display Technology Co., Ltd.**,a company established in the PRC with limited liability, is a subsidiary of Nanjing Huadong Electronics Information & Technology Co., Ltd.**
PMOLED	Passive Matrix Organic Light Emitting Diode
POLED	Plastic Organic Light Emitting Diode
Product R&D	Product design, development and engineering
S&D	Selling and Distribution
the Stock Exchange	The Stock Exchange of Hong Kong Limited
TDDI	Touch and Display Driver Integration
TFT	Thin Film Transistor
UHD	Ultra high definition (4K/8K) is a display resolution standard of at least 3840 x 2160 pixels (8.3 megapixels; 4K)
UK	United Kingdom
USA	United States of America
US$/USD	US dollars

*** for identification purpose only*

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

Hong Kong, 13 March 2018

As at the date of this announcement, the Board comprises: (a) Executive Directors – Dr. Yeh Tsuei Chi (Chief Executive Officer) and Mr. Lo Wai Ming; (b) Non-executive Directors –Mr. Li Rongxin (Chairman), Dr. Li Jun and Mr. Zhao Guiwu; and (c) Independent Non-executive Directors – Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Mr. Yiu Tin Chong, Joseph.