SOLOMON SYSTECH

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

2018 FINAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Revenue increased by about 19% to US$98.1 million
- Gross profit was US$28.2 million, decreased by about 3.9% from last year
- Gross margin was 28.7%, down 6.9 percentage points
- Net loss was US$13.8 million
- Loss per share was 0.55 US cents (4.26 HK cents)
- Book-to-bill ratio was 1.0
- The Board of Directors resolved not to propose any final dividend for the year ended 31 December 2018

FINAL RESULTS

The Directors of Solomon Systech (International) Limited announce the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 together with the comparative figures for the corresponding year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	2018 US$'000	2017 US$'000
Revenue	4	**98,148**	82,464
Cost of sales		**(69,980)**	(53,148)
Gross profit		**28,168**	29,316
Research and development costs		**(31,482)**	(34,530)
Selling and distribution expenses		**(4,043)**	(3,265)
Administrative expenses		**(13,154)**	(11,910)
Other income and gains – net	5	**4,551**	6,127
		(15,960)	(14,262)
Finance income – net	6	**1,970**	3,938
		(13,990)	(10,324)
Share of profits of associates		**222**	22
Loss before tax	7	**(13,768)**	(10,302)
Income tax expense	8	**-**	(19)
Loss for the year		**(13,768)**	(10,321)
Attributable to:			
- Owners of the parent		**(13,677)**	(10,233)
- Non-controlling interests		**(91)**	(88)
		(13,768)	(10,321)
Loss per share attributable to ordinary equity holders of the parent:	9		
(expressed in US cents per share)			
- Basic		**(0.55)**	(0.41)
- Diluted		**(0.55)**	(0.41)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 US$'000	2017 US$'000
Loss for the year	**(13,768)**	(10,321)
Other comprehensive income/(loss)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
- Exchange difference arising on translation of foreign operations	**393**	(88)
Total comprehensive loss for the year	**(13,375)**	(10,409)
Attributable to:		
- Owners of the parent	**(13,283)**	(10,324)
- Non-controlling interests	**(92)**	(85)
	(13,375)	(10,409)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 US$'000	2017 US$'000
NON-CURRENT ASSETS			
Intangible assets		15,609	19,841
Property, plant and equipment		5,036	5,084
Investments in associates		737	515
Equity investment designated at fair value through other comprehensive income		839	-
Available-for-sale investments		-	2,206
Prepayments and deposits	11	525	180
Financial assets at fair value through profit or loss		467	788
Total non-current assets		23,213	28,614
CURRENT ASSETS			
Inventories		32,654	20,527
Trade and other receivables	11	28,838	21,231
Financial assets at fair value through profit or loss		8,780	22,370
Pledged bank deposit		130	130
Cash and cash equivalents		13,395	23,347
Total current assets		83,797	87,605
CURRENT LIABILITIES			
Trade and other payables	12	26,912	23,332
Interest-bearing bank borrowings		198	92
Deferred income		405	271
Tax payables		152	143
Total current liabilities		27,667	23,838
NET CURRENT ASSETS		56,130	63,767
TOTAL ASSETS LESS CURRENTLIABILITIES		79,343	92,381
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing		-	207
Deferred tax liability		313	366
Total non-current liabilities		313	573
Net assets		79,030	91,808
EQUITY			
Equity attributable to owners of the parent			
Share capital		31,967	31,958
Reserves		46,493	59,188
		78,460	91,146
Non-controlling interests		570	662
Total equity		79,030	91,808

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 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 are presented in US dollars, unless otherwise stated.

2. Basis of preparation

The consolidated financial statements have been prepared in accordance with HKFRSs (which include all HKFRSs, HKASs and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and equity investment designated at fair value through other comprehensive income which have been measured at fair value.

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 judgement in the process of applying the Group's accounting policies.

(a) **Changes in accounting policies and disclosures**

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on the financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement
The following information sets out the impacts of adopting HKFRS 9 on the consolidated statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement					HKFRS 9 measurement	
	Notes	Category	Amount	Re-classification	Re-measurement	ECL	Amount	Category
			US$'000	US$'000	US$'000	US$'000	US$'000	
Financial assets								
Available-for-sale investments	(ii)	AFS[1]	2,206	(2,206)	-	-	-	N/A
Financial assets included in trade and other receivables	(i), (iii)	L&R[2]	19,790	(142)	-	(140)	19,508	AC[3]
Deposits		L&R[2]	128	-	-	-	128	AC[3]
Financial assets at fair value through profit or loss	(ii)	FVPL[4]	23,158	2,206	-	-	25,364	FVPL[4]
Equity investment designated at fair value through other comprehensive income	(iii)	N/A	-	142	697	-	839	FVOCI[5]
Pledged bank deposit		L&R[2]	130	-	-	-	130	AC[3]
Cash and cash equivalents		L&R[2]	23,347	-	-	-	23,347	AC[3]
			68,759	-	697	(140)	69,316	
Financial liabilities								
Financial liabilities included in trade and other payables		AC[3]	19,423	-	-	-	19,423	AC[3]
Interest-bearing bank borrowings		AC[3]	299	-	-	-	299	AC[3]
			19,722	-	-	-	19,722	

1 AFS: Available-for-sale investments

2 L&R: Loans and receivables

3 AC: Financial assets or financial liabilities at amortised cost

4 FVPL: Financial assets at fair value through profit or loss

5 FVOCI: Financial assets at fair value through other comprehensive income

Notes:

(i) The gross carrying amount of the trade receivables under the column "HKAS 39 measurement - Amount" represents the amount after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs.

(ii) The Group has classified its investments in unlisted shares previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these investments are equity investments.

(iii) The Group has classified its investment in a club debenture previously as financial assets at amortised cost included in other receivables and reclassified it as equity investment designated at fair value through other comprehensive income in HKFRS 9. Such investment was measured at fair value as at 1 January 2018 with fair value changes recognised in the fair value reserve of the statement of changes in equity.

Impairment
The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017	Re-measurement	ECL allowance under HKFRS 9 at 1 January 2018
	US$'000	US$'000	US$'000
Trade and other receivables	-	140	140
Deposits and other receivables	-	-	-
	-	140	140

HKFRS 15 Revenue from contracts with Customers

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standards to contracts that were not completed as at 1 January 2018. The comparative information was not restated and continued to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

		Increase/ (decrease)
Liabilities	Note	US$'000
Provision for rebates included in trade and other payables	(i)	(537)
Refund liabilities included in trade and other payables	(i)	537

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 as a result of the adoption of HKFRS 15:

Liabilities	Note	Increase/ (decrease) US$'000
Provision for rebates included in trade and other payables	(i)	(1,753)
Refund liabilities included in trade and other payables	(i)	1,753

The nature of the adjustments as at 1 January 2018 and the reason for the changes in the consolidated statement of financial position as at 31 December 2018 is described below:

(i) Volume rebates

The Group provides volume rebates to certain of its customers on specified products purchased by these customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Prior to adoption of HKFRS 15, the Group estimated the expected volume rebates using the probability-weighted average amount of rebates approach and included a provision for rebates in trade and other payables.

Under HKFRS 15, volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Group applied the 'most likely amount method' as the contracts offer fixed amount of rebates for a single volume threshold for each particular product. The Group then applies the requirements on constraining estimates of variable consideration. Upon adoption of HKFRS 15, the Group recognised refund liabilities under trade and other payables for the expected future rebates and derecognised the provision for rebates under trade and other payables of US$537,000 as at 1 January 2018. The adoption of HKFRS 15 did not result in any impact on the opening balance of accumulated losses as at 1 January 2018 as the estimation of variable considerations and application of constraint are not materially different from the provision estimation under HKAS 18.

As at 31 December 2018, under HKFRS 15, the Group recognised refund liabilities of US$1,753,000 under other payables for the provision for rebates.

4. Segment information and disaggregation of revenue

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 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.

(a) Sales disaggregated by geographical markets

	2018 US$'000	2017 US$'000
Hong Kong	46,313	22,885
Taiwan	20,849	22,410
China	9,717	12,260
Europe	8,230	5,762
Japan	7,513	5,193
Korea	4,125	10,501
South East Asia	367	1,759
USA	440	468
Others	594	1,226
	98,148	82,464

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

(b) Sales disaggregated by product types

	2018 US$'000	2017 US$'000
Advanced Display ICs	49,229	41,157
Large Display ICs	17,965	6,186
Other ICs	30,954	35,121
	98,148	82,464

Other mainly comprise mobile touch and mobile display products.

(c) Non-current assets

	2018 US$'000	2017 US$'000
Hong Kong	12,741	15,966
China	5,128	4,850
Taiwan	2,172	2,491
Korea	1,536	1,763
United Kingdom	310	543
Others	20	7
	21,907	25,620

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

(d) Capital expenditures

	2018 US$'000	2017 US$'000
Intangible assets		
China	—	2,500
	—	2,500
Property, plant and equipment		
China	1,591	1,197
Taiwan	233	924
United Kingdom	29	801
Hong Kong	73	55
Others	7	40
	1,933	3,017

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

(e) Major customers

For the year ended 31 December 2018, the largest and the second largest customers were located in Hong Kong and the third largest customer was located in Taiwan. Sales to them were US$14,698,000, US$13,601,000 and US$11,234,000 respectively which were all over 10% of the Group's total revenue. For the year ended 31 December 2017, sales of US$10,504,000 were derived from a single external customer was located in Taiwan which were over 10% of the Group's total sales.

5. Other income and gains – net

	2018 US$'000	2017 US$'000
Government grant	4,162	5,883
Gain on disposal of property, plant and equipment	117	24
Others	272	220
	4,551	6,127

6. Finance income – net

	2018 US$'000	2017 US$'000
Interest income	361	814
Dividend income	122	347
Fair value gain on financial assets at FVTPL, net	1,491	2,781
Interest expense of bank loans	(4)	(4)
	1,970	3,938

7. Loss before tax

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

	2018 US$'000	2017 US$'000
Cost of inventories sold	63,661	49,409
Product engineering costs	4,405	5,244
Provision for obsolete or slow moving inventories	5,920	3,454
Amortization of intangible assets	4,201	3,612
Depreciation	1,750	1,284
Minimum lease payments under operating leases	1,912	1,918
Auditor's remuneration		
- Audit services	235	234
- Non-audit services	37	25
Employee benefit expenses (including directors' emoluments)	30,967	32,390
Foreign exchange differences, net	133	54

8. Income tax

Hong Kong income tax has been provided at the rate of 16.5% (2017: 16.5%) while overseas income tax has been provided at the rates of taxation prevailing in the countries in which the Group operates.

	2018 US$'000	2017 US$'000
Current - Hong Kong		
– Overprovision in prior years	(89)	—
Current - Elsewhere		
- Charge for the year	142	62
Deferred	(53)	(43)
Total tax expense for the year	—	19

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 2018 attributable to owners of the parent of US$13,677,000 (2017: US$10,233,000) and the weighted average number of 2,480,028,242 (2017: 2,478,135,913) 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 owners of the parent 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	
	2018	2017
Weighted average number of ordinary shares in issue	2,480,028,242	2,478,135,913
Conversion of all dilutive share options outstanding[(i)]	—	—
Adjusted weighted average number of ordinary shares for diluted loss per share calculation	2,480,028,242	2,478,135,913

(i) As at 31 December 2018, there were 21,760,000 (2017: 31,600,000) share options outstanding which could potentially have a dilutive impact but were anti-dilutive for the year then ended. Hence, no adjustment has been made on the calculation of the diluted loss per share for the years ended 31 December 2018 and 2017.

10. Dividend

No dividend for the years ended 31 December 2018 and 2017 was declared or paid by the Company. In addition, the Board resolved not to propose any final dividend for the year ended 31 December 2018.

11. Trade and other receivables

	2018 US$'000	2017 US$'000
Trade receivables	22,527	15,491
Trade receivables from related parties	1,527	1,696
Impairment	(140)	-
Trade receivables – net	23,914	17,187
Deposits, prepayments and other receivables	4,692	3,810
Prepayments to related parties	232	234
Trade and other receivables – current portion	28,838	21,231
Prepayments and deposits – non-current portion	525	180
	29,363	21,411

As at 31 December 2018, the ageing analysis of trade receivables based on invoice dates and net of loss allowance, is as follows:

	2018 US$'000	2017 US$'000
1 - 30 days	9,622	6,468
31 - 60 days	6,547	4,533
61 - 90 days	4,522	3,428
91 - 180 days	3,223	2,755
181 - 365 days	—	3
	23,914	17,187

As at 31 December 2018, the Group's trade receivables from corporate customers were mainly on credit terms of 30 to 90 days.

12. Trade and other payables

	2018 US$'000	2017 US$'000
Trade payables	18,697	15,636
Accrued expenses and other payables	8,215	7,696
	26,912	23,332

At 31 December 2018, the ageing analysis of the trade payables based on invoice dates is as follows:

	2018 US$'000	2017 US$'000
1 - 30 days	6,293	6,742
31 - 60 days	5,072	4,994
61 - 90 days	5,538	3,464
Over 90 days	1,794	436
	18,697	15,636

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

For the year ended 31 December 2018, the Group's total sales were US$98.1 million (2017: US$82.5 million). A net loss of US$13.8 million (2017: US$10.3 million) was recorded mainly attributable to provisions made for slow moving inventories due to reduced market demand for some of the Group's products resulting in diminished gross profit margins, and a decrease in net finance income due to a less favourable investment environment during the year of 2018 compared to that of 2017.

Sales and Gross Profit

The Group recorded an increase in total shipments by around 37% year-on-year to approximately 295.8 million units (2017: 215.2 million units). The overall book-to-bill ratio of the Group for 2018 was 1.0 (2017: 1.1).

With the strong growth in the sales of the Group's advanced display products and large display driver IC in 2018, the total sales increased by approximately 19% year-on-year to around US$98.1 million (2017: US$82.5 million).

Owing to the intense price competition in the market and the aforesaid inventory provision, the gross margin decreased by 6.9 percentage points to 28.7% (2017: 35.6%) attributable to a change in the product mix of the Group. The gross profit of the Group decreased to US$28.2 million (2017: US$29.3 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$48.7 million (2017: US$49.7 million), down mildly by US$1.0 million or 2% year-on-year.

The Group continued to invest in product R&D and business development and remained selective in its product R&D spending. New technology development and new product introduction were mainly concentrated on viable and profitable businesses, thereby resulting in an overall reduction in R&D expenditure from US$34.5 million to US$31.5 million (dropped US$3.0 million or 8.7% year-on-year). Product R&D costs to sales ratio was 32.1% (2017: 41.8%).

S&D expenses were US$4.0 million (2017: US$3.3 million) whilst the S&D expenses to sales ratio was 4.1% (2017: 4.0%).

Administrative expenses were US$13.2 million, increased by US$1.3 million from US$11.9 million in 2017. The increase was mainly on depreciation on additional fixed assets invested in the new overseas technology centres and related travel and entertainment for business expansion.

Other Income and Gains – Net

Other income in 2018 totalled US$4.6 million (2017: US$6.1 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 2018, the Group recorded an interest income of US$0.4 million (2017: US$0.8 million) and a dividend income of US$0.1 million (2017: US$0.3 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 based on the mark-to-market prices as at 31 December 2018 recorded a net fair value loss of US$0.7 million (2017: net fair value gain US$2.9 million) on marketable and listed debt or equity securities. A net fair value gain of US$2.2 million (2017: net fair value loss of US$0.1 million) was recorded for a derivative instrument and an unlisted equity security.

As a result, the Group recorded a net finance income of US$2.0 million (2017: US$3.9 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 2018.

To support strategic investment and expansion for product portfolio and business, the Group has disposed of, net, approximately 60% of the investment in financial assets to meet the cash requirement during 2018.

With the FVTPL Portfolio maintained as of 31 December 2018 consists mainly of marketable bonds, mutual funds and exchange trade funds held through reputable financial institutions including 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 2018, the pretax loss was US$13.8 million (2017: US$10.3 million). The loss attributable to the equity holders of the Company was US$13.7 million (2017: US$10.2 million), mainly due to inventory provision and decrease in net finance income.

Liquidity and Financial Resources

As at 31 December 2018, total cash and cash equivalents and bank deposits of the Group amounted to US$13.4 million (2017: US$23.3 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 2018, the Group had no major borrowing other than the bank loan of US$0.2 million in a 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

In 2018, the Group achieved a year-on-year increase in total shipments of around 37% to approximately 295.8 million units. Total sales were also up year-on-year by around 19% to approximately US$98.1 million. The increase in both unit shipments and sales was mainly attributable to the growth of the large display driver IC and bistable display driver IC businesses.

During 2018, the Group launched a number of new products, among which PMOLED Touch and Display Driver Integration (TDDI) IC was of particular significance as it marked an important industry milestone. It is therefore expected to become a key revenue driver in 2019 and beyond. The Group also successfully leveraged Solomon Systech (China) Limited (or Nanjing Technology Center (NJTC)), which is strategically located in Nanjing Jiangbei New District, to bolster its large display driver IC business. The strengthened operations at NJTC has helped to build a strong foundation for driving business development in China going forward.

The Group managed to achieve some major design wins with international brands for its touch controller ICs and bistable display driver ICs, which are expected to commence mass production in 2019.

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

Units Shipped (million units)	2018	2017	Change
Advanced Display	184.4	160.4	15%
Large Display	58.0	14.9	289%
Others	53.4	39.9	34%
Total	295.8	215.2	37%

Advanced Display

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

The total unit shipments of AD products in 2018 recorded year-on-year growth of around 15% to approximately 184.4 million units (2017: 160.4 million units).

While the Group's PMOLED display driver IC business witnessed strong growth in the first half of 2018, in the second half year, the reduced market demand for some applications adversely affected the sales of the Group's standard PMOLED display driver ICs. Nonetheless, the Group managed to score design wins with key international brands of wearables and smart home appliances, and capture the business opportunities arising from the shift in display trend from monochrome to higher resolution grayscale.

The Group's key innovation in 2018, the PMOLED TDDI IC SSD7317, which is the first of its kind in the world, was officially launched into the market at the end of 2018. This ground breaking innovation has garnered the Technological Achievement Award at the 2018 Hong Kong Awards for Industries, and was highly commended at the IET (Institution of Engineering and Technology) Innovation Awards. Besides such accolades, the Group's partner panel manufacturer was the recipient of the "Outstanding Product Award – Materials and Components Category" at the 2018 Gold Panel Awards in Taiwan for its PMOLED TDDI IC SSD7317 module. Pilot production of this award-winning new product is expected to start in the first half of 2019.

The strong growth momentum of the Group's bistable display IC business continued in the second half year, due to a surge in demand for ESL to cater for the flourishing trend towards unmanned stores and retail automation, especially in China. The Group has achieved design wins for ESL applications from renowned retail store chains. The Group's newly developed products supporting larger-size bistable display panels of 7 inches to 13 inches have also started mass production in 2018, targeting applications like section signage for supermarkets/stores, scoreboards, tags for logistics asset management, etc.

Large Display

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

The establishment of the strategic China business and technology center in Nanjing has helped greatly in facilitating the growth of the Group's large-display driver IC business, which witnessed strong year-on-year increase in unit shipments of around 289% to approximately 58.0 million units in 2018 (2017: 14.9 million units).

The Group has succeeded in greatly increasing its share of the 4K UHD TV and FHD monitor businesses from Panda-FPD, a key customer, resulting in a surge in product shipment and sales. The Group has also been collaborating with Panda-FPD and CEC Panda's new Gen 8.6 fab in Chengdu to develop a point-to-point display driver IC for targeting the high-end 120Hz UHD TV and 8K TV markets, which are poised for growth in 2019 and beyond.

The Group has qualified to serve as a major supplier of Chengdu fab and Caihong Optoelectronics Technology in Xianyang. As mass production already commenced at the end of 2018 for the Chengdu fab and in March 2019 for Caihong Optoelectronics Technology, the Group's revenue stream will be further enhanced.

Others

Apart from AD and LD products, the Group also provides other products, among which include: Mobile Touch ("MT") products covering AMOLED touch controller ICs (foldable/flexible/ POLED/ rigid) and LCD touch controller ICs (Out-Cell/ On-Cell/ Hybrid In-Cell) for smartphones, video game console controllers, wearables, active styluses, tablets, etc.; Mobile Display ("MD") products such as In-Cell TDDI ICs and TFT LCD display driver ICs supporting smartphones, tablets, etc.; and MIPI bridge ICs for virtual reality devices, test jigs, smart watches, etc.

The unit shipments of this category of products increased by approximately 34% year-on-year to around 53.4 million units (2017: 39.9 million units).

Delays in the launch of mature LCD TDDI products have chiefly impacted the MD products business. Nonetheless, the Group's maXTouch® touch controller ICs, particularly those for flexible AMOLED display panels, have managed to score design wins with international brands of smartphones and tablets. Furthermore, the Group's MT products have been incorporated into well-known smart watch brands and the touch pads of a video game console brand.

To get well prepared for capitalizing on the upcoming foldable AMOLED displays trend, the Group taped out a new foldable AMOLED touch controller IC at the end of 2018.

The Group's In-Cell TDDI IC for FHD+ (1080 x 2160) LTPS panels was featured in the latest smartphone model of a key brand. It has also been designed-in by a number of independent design houses for smartphones, and qualified by certain smartphone makers in China. The Group's MIPI bridge ICs have scored design wins for a range of applications, including virtual reality devices, test jigs, GPS devices, learning devices, etc.

OUTLOOK

Faced with risks and uncertainties surrounding the global economy and semiconductor industry in 2019, the Group will strive to leverage thriving target application markets, including ESLs, wearables and smart handheld devices; its strategic China business and technology center in Nanjing; and its newly developed innovative products to drive growth.

Advanced Display

The Group's key innovation in 2018, the PMOLED TDDI IC, is expected to commence mass production in the second half of 2019, and thereby contribute to the Group's revenue stream. The

Group will also continue to capitalize on the growth potential of smart home appliances and wristbands with grayscale displays to achieve progress.

The Group's bistable display driver IC business, bolstered by the ongoing trend towards unmanned stores and retail automation, is set to continue its strong growth momentum in 2019. The Group has also been developing new ICs to cater for the requirements of the next generation of e-paper displays, ensuring it remains at the forefront of the technology.

Large Display

The Group's large display driver IC business is on a strong footing for growth in 2019, given that the 4K UHD TV and FHD monitor businesses with Panda-FPD continue to prosper, and mass production for its Chengdu customer and Caihong Optoelectronics Technology in Xianyang will start to ramp up. The Group will nonetheless remain motivated to reach out to more potential customers.

The point-to-point display driver IC for the high-end 120Hz UHD TV and 8K TV markets jointly developed with Panda-FPD and Panda's new fab in Chengdu is expected to start mass production during 2019, and will go towards capturing the flourishing market.

Others

The key design wins scored by the Group's touch controller IC with major brands of smartphones, tablets and video game console controllers in 2018 are expected to start mass production in 2019, further enhancing the revenue stream. The newly developed touch controller IC supporting foldable AMOLED panels will also commence mass production in the second half of 2019 and is expected to become a key revenue driver.

The design wins achieved in 2018 by the Group's mobile display products will continue to bring in revenue in 2019. The Group is committed to achieving more design wins and extending the application of its In-Cell TDDI IC and MIPI bridge chips.

PRODUCT DEVELOPMENT

In 2018, the Group spent roughly US$31.5 million on R&D, representing about 64.7% of total expenses and 32.1% of total revenue 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 2018 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 and an increased color depth dithering 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 9 patents and filed 23 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 2018, the Group had a total workforce of 409 employees, excluding its manufacturing subsidiary in China. Of the total workforce, around 35% 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 2018.

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

For the year ended 31 December 2018, 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 2018.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITORS

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 2018. The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young 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 Ernst & Young on the preliminary announcement.

FINAL DIVIDEND

The Board resolved not to propose any final dividend for the year ended 31 December 2018.

CLOSURE OF REGISTERS OF SHAREHOLDERS

The Register of Shareholders of the Company will be closed from 3 June 2019 to 5 June 2019 (both days inclusive), during which no transfer of shares can be registered. In order to qualify for attending the 2019 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 Friday, 31 May 2019, 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 2019.

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, is 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
ESL	Electronic Shelf Label
FHD	Full High Definition, a display resolution standard of 1920 x 1080 pixels
FHD+	A display resolution standard of 2220 x 1080 pixels, which is more than the normal FHD 1080p
FVTPL	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$/HKD	Hong Kong dollars
HKAS	Hong Kong Accounting Standards
HKFRS	Hong Kong Financial Reporting Standards, or collectively for HKAS and Hong Kong Financial Reporting Standards
Hong Kong/HK/HKSAR	Hong Kong Special Administrative Region of the PRC
IC	Integrated Circuit
IGZO	A semiconductor material consisting of indium (In), gallium (Ga), zinc (Zn) and oxygen (O)
IP	Intellectual Property
LCD	Liquid Crystal Display
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
LTPS	Low Temperature Polysilicon, a technology for the manufacturing of TFT-LCD
MIPI	Mobile Industry Processor Interface
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
OLED	Organic Light Emitting Diode
Panda-FPD	Nanjing CEC Panda Flat Panel Display Technology Co., Ltd.**,a company established in the PRC with limited liability, is a subsidiary of Nanjing Huadong Electronics Information & Technology Co., Ltd.**
PMOLED	Passive Matrix Organic Light Emitting Diode
POLED	Plastic Organic Light Emitting Diode
R&D	Product design, development and engineering
S&D	Selling and Distribution
the Stock Exchange	The Stock Exchange of Hong Kong Limited
TDDI	Touch and Display Driver Integration
TFT	Thin Film Transistor
UHD	Ultra high definition is a display resolution standard of 3840 x 2160 pixels (8.3 megapixels; 4K)
UK	United Kingdom
USA	United States of America
US$/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 2019

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. Ma Yuchuan; and (c) Independent Non-executive Directors – Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Mr. Yiu Tin Chong, Joseph.