SOLOMON
SYSTECH

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

2019 FINAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Revenue increased by about 10% to US$108.3 million
- Gross profit was US$21.3 million, decreased by about 24% from last year
- Gross margin was 19.7%, down 9 percentage points
- Net loss was US$27.8 million
- Loss per share was 1.1 US cents (8.53 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 2019

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 2019 together with the comparative figures for the corresponding year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	**2019 US$'000**	2018 US$'000
Revenue	4	**108,323**	98,148
Cost of sales		**(86,995)**	(69,980)
Gross profit		**21,328**	28,168
Research and development costs		**(24,728)**	(31,482)
Selling and distribution expenses		**(3,133)**	(4,043)
Administrative expenses		**(12,409)**	(13,154)
Other expenses		**(13,532)**	–
Other income and gains – net	5	**4,138**	4,551
		(28,336)	(15,960)
Finance income – net	6	**1**	1,970
		(28,335)	(13,990)
Share of profits of associates		**155**	222
Loss before tax	7	**(28,180)**	(13,768)
Income tax credit	8	**375**	–
Loss for the year		**(27,805)**	(13,768)
Attributable to:			
– Owners of the parent		**(27,272)**	(13,677)
– Non-controlling interests		**(533)**	(91)
		(27,805)	(13,768)
Loss per share attributable to ordinary equity holders of the parent:	9		
(expressed in US cent(s) per share)			
– Basic		**(1.1)**	(0.55)
– Diluted		**(1.1)**	(0.55)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 US$'000	2018 US$'000
Loss for the year	**(27,805)**	(13,768)
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	**(53)**	393
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
– Equity investment designated at fair value through other comprehensive income change in fair value	**90**	–
Total comprehensive loss for the year	**(27,768)**	(13,375)
Attributable to:		
– Owners of the parent	**(27,234)**	(13,283)
– Non-controlling interests	**(534)**	(92)
	(27,768)	(13,375)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 US$'000	2018 US$'000
NON-CURRENT ASSETS			
Intangible assets		1,453	15,609
Property, plant and equipment		3,650	5,036
Right-of-use assets		1,697	–
Investments in associates		892	737
Equity investment designated at fair value through other comprehensive income		929	839
Prepayments and deposits	11	333	525
Financial assets at fair value through profit or loss		–	467
Total non-current assets		8,954	23,213
CURRENT ASSETS			
Inventories		26,791	32,654
Trade and other receivables, prepayments and deposits	11	22,968	28,838
Financial assets at fair value through profit or loss		–	8,780
Pledged bank deposit		130	130
Cash and cash equivalents		18,078	13,395
Total current assets		67,967	83,797
CURRENT LIABILITIES			
Trade and other payables	12	23,196	26,912
Interest-bearing bank borrowings		–	198
Lease liabilities		1,292	–
Deferred income		258	405
Tax payables		91	152
Total current liabilities		24,837	27,667
NET CURRENT ASSETS		43,130	56,130
TOTAL ASSETS LESS CURRENT LIABILITIES		52,084	79,343
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		169	–
Lease liabilities		606	–
Deferred tax liability		–	313
Total non-current liabilities		775	313
Net assets		51,309	79,030
EQUITY			
Equity attributable to owners of the parent			
Issued capital		31,967	31,967
Reserves		19,306	46,493
		51,273	78,460
Non-controlling interests		36	570
Total equity		51,309	79,030

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 ("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 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

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 certain financial assets which have been measured at fair value.

3. Change in accounting policies and disclosure

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the adoption of the above new and revised HKFRSs has had no significant financial effect on these financial statements.

HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)- Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and leases liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initially applying the standard recognised an adjustment to the opening balance of accumulated losses at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretations.

(i) *New definition of a lease*

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

(ii) *As a lessee – Leases previously classified as operating leases*

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property and vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation and impairment of the right-of-use assets and interest accrued on the outstanding lease liabilities as finance costs.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend the lease

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

(iii) *Financial impact as at 1 January 2019*

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) US$'000
Assets	
Increase in right-of-use assets	3,241
Decrease in trade and other receivables, prepayments and deposits	(3)
Increase in total assets	3,238
Liabilities	
Increase in lease liabilities	3,238

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	US$'000
Operating lease commitments as at 31 December 2018	3,817
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(274)
	3,543
Weighted average incremental borrowing rate as at 1 January 2019	5.5%
Lease liabilities as at 1 January 2019	3,238

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 as a whole to assess performance and allocate resources. A management approach has been used for the operating segment reporting.

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

	2019 US$'000	2018 US$'000
Hong Kong	72,510	46,313
Mainland China	7,276	9,717
Taiwan	13,976	20,849
Europe	5,880	8,230
Japan	5,489	7,513
Korea	2,433	4,125
South East Asia	286	367
USA	329	440
Others	144	594
	108,323	98,148

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

(b) Revenue from contracts with customers disaggregated by product types

	2019 US$'000	2018 US$'000
Advanced Display ICs	39,224	49,229
Large Display ICs	39,054	17,965
Other ICs	30,045	30,954
	108,323	98,148

Other ICs mainly comprise Mobile Touch and Mobile Display products.

(c) Non-current assets

	2019 US$'000	2018 US$'000
Hong Kong	2,095	12,741
Mainland China	3,956	5,128
Taiwan	1,877	2,172
Korea	87	1,536
United Kingdom	–	310
Others	10	20
	8,025	21,907

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

(d) Capital expenditures

	2019 US$'000	2018 US$'000
Property, plant and equipment		
Mainland China	177	1,591
Hong Kong	109	73
Taiwan	8	233
United Kingdom	15	29
Others	14	7
	323	1,933

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

(e) Major customers

For the year ended 31 December 2019, the largest and the second largest customers were located in Hong Kong. Sales to them were US$36,371,000 and US$14,568,000 respectively which were all over 10% of the Group's total revenue. 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.

(f) Performance obligation

Sale of integrated circuits products

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 90 days from delivery. Some contracts provide customers with volume rebates which give rise to variable consideration subject to constraint.

5. Other income and gains – net

	2019 US$'000	2018 US$'000
Government grant	3,920	4,162
Gain/(loss) on disposal of items of property, plant and equipment	(20)	117
Others	238	272
	4,138	4,551

6. Finance income – net

	2019 US$'000	2018 US$'000
Interest income	146	361
Dividend income	25	122
Fair value gain/(loss) from financial assets at FVTPL, net	(21)	1,491
Interest on bank loans	(2)	(4)
Interest on lease liabilities	(147)	–
	1	1,970

7. Loss before tax

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

	2019 US$'000	2018 US$'000
Cost of goods sold	79,815	63,661
Product engineering costs	3,813	4,405
Provision for obsolete or slow moving inventories	6,696	5,920
Amortisation of intangible assets	3,851	4,201
Depreciation of property, plant and equipment	1,662	1,750
Depreciation of right-of-use assets	1,430	–
Minimum lease payments under operating leases	–	1,912
Lease payments not included in the measurement of lease liabilities	400	–
Foreign exchange differences, net	225	133
Auditor's remuneration	213	272
Impairment of goodwill	2,317*	–
Impairment of other intangible assets	7,988*	–
Impairment of right-of-use assets	67*	–
Impairment of property, plant and equipment	12*	–
Impairment of trade receivables	80*	–
Termination benefits	3,068*	704

* These items are included in "Other expenses" in the consolidated statement of profit or loss.

8. Income tax

Hong Kong income tax has been provided at the rate of 16.5% (2018: 16.5%) while overseas income tax has been provided at the rates of taxation prevailing in the countries in which the Group operates.

	2019 US$'000	2018 US$'000
Current – Hong Kong:		
Overprovision in prior years	–	(89)
Current – Elsewhere:		
Charge for the year	5	142
Overprovision in prior years	(67)	–
Deferred income tax	(313)	(53)
Total income tax credit	(375)	–

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 2019 attributable to owners of the parent of US$27,272,000 (2018: US$13,677,000) and the weighted average number of 2,480,252,351 (2018: 2,480,028,242) 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.

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

	Number of shares	
	2019	2018
Weighted average number of ordinary shares in issue	**2,480,252,351**	2,480,028,242
Conversion of all dilutive share options outstanding (i)	**–**	—
Adjusted weighted average number of ordinary shares for diluted loss per share calculation	**2,480,252,351**	2,480,028,242

(i) As at 31 December 2019, there were 15,560,000 (2018: 21,760,000) 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 2019 and 2018.

10. Dividend

No dividend for the years ended 31 December 2019 and 2018 was declared or paid by the Company. In addition, the Board resolved not to propose any final dividend for the year ended 31 December 2019.

11. Trade and other receivables, prepayments and deposits

	2019	2018
	US$'000	US$'000
Trade receivables	**18,158**	22,527
Trade receivables from related parties	**1,702**	1,527
Impairment	**(220)**	(140)
Trade receivables – net	**19,640**	23,914
Deposits, prepayments and other receivables	**3,153**	4,692
Prepayments to related parties	**175**	232
Trade and other receivables – current portion	**22,968**	28,838
Prepayments and deposits – non-current portion	**333**	525
	23,301	29,363

As at 31 December 2019, the ageing analysis of trade receivables based on invoice dates and net of loss allowance, is as follows:

	2019	2018
	US$'000	US$'000
1 - 30 days	**13,841**	9,622
31 - 60 days	**4,007**	6,547
61 - 90 days	**1,641**	4,522
91 - 180 days	**9**	3,223
181 - 365 days	**142**	—
	19,640	23,914

As at 31 December 2019, the Group's trade receivables from corporate customers were mainly on credit terms of 30 to 90 days.

12. Trade and other payables

	2019 US$'000	2018 US$'000
Trade payables	15,845	18,697
Accrued expenses and other payables	5,585	6,462
Contract liabilities	934	–
Refund liabilities	832	1,753
	23,196	26,912

At 31 December 2019, the ageing analysis of the trade payables based on invoice dates is as follows:

	2019 US$'000	2018 US$'000
1 - 30 days	6,850	6,293
31 - 60 days	5,907	5,072
61 - 90 days	3,000	5,538
Over 90 days	88	1,794
	15,845	18,697

The trade and other payables are non-interest-bearing and have an average term of three months.

Contract liabilities include short-term advances received from customers for the sale of ICs.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

For the year ended 31 December 2019, the Group's total sales were US$108.3 million (2018: US$98.1 million). A net loss of US$27.8 million (2018: US$13.8 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, a decrease in net finance income due to a less favourable investment environment during the year of 2019 compared to that of 2018, in conjunction with certain non-recurring expenses and impairments.

Sales and Gross Profit

The Group recorded an increase in total shipments by around 4% year-on-year to approximately 308.7 million units (2018: 295.8 million units). The overall book-to-bill ratio of the Group for 2019 was 1.1 (2018: 1.0).

With the strong growth in the sales of the Group's large display driver ICs in 2019, the total sales increased by approximately 10% year-on-year to around US$108.3 million (2018: US$98.1 million).

Owing to the intense price competition in the market and the aforesaid inventory provision, the gross margin decreased by 9 percentage points to 19.7% (2018: 28.7%) attributable to a change in the product mix of the Group. The gross profit of the Group decreased to US$21.3 million (2018: US$28.2 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, administrative expenses and other expenses, were US$53.8 million (2018: US$48.7 million), up by US$5.1 million or 10% year-on-year. The increase was due to certain material non-recurring expenses such as retrenchment cost and impairment of intellectual properties and goodwill as a result of business restructure during the 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 mainly concentrated on viable and profitable businesses, thereby apart from the impairment of intellectual properties, an overall decrease in R&D expenditure from US$31.5 million to US$24.7 million (dropped US$6.8 million or 21.6% year-on-year). Product R&D costs to sales ratio was 22.8% (2018: 32.1%).

S&D expenses were US$3.1 million (2018: US$4.0 million) whilst the S&D expenses to sales ratio was 2.9% (2018: 4.1%).

Administrative expenses were US$12.4 million, decreased by US$0.8 million from US$13.2 million in 2018. The decrease was mainly on saving of certain operating cost due to business restructure during the year.

Other expenses were US$13.5 million, which were non-recurring (2018: Nil) mainly represented the impairment loss of intangible assets as a result of business restructure during the year. The impairment loss arose primarily due to write off of remaining balance of intellectual properties (US$6.8 million) in relation to the Group's Mobile Touch ("MT") business, write off of goodwill (US$2.3 million) and intellectual properties (US$1.2 million) in relation to the Group's Mobile Display ("MD") business and termination benefits (US$3.0 million) of which about US$2.0 million in relation to the closure of overseas offices.

Background and Reasons for the Impairment Loss

(i) Write-off of remaining balance of intellectual properties (US$6.8 million) in relation to MT business

As disclosed in the Company's Announcement on 1 November 2016, the Company acquired intangible assets of US$17 million, mainly intellectual properties of maXTouch® technology and set up overseas technology centres for the development of MT business. The Company amortized intellectual properties of US$3.1 million during the year which was charged as research and development cost. The resultant carrying amount of intellectual properties for its remaining useful life was US$6.8 million. However, due to the change of market conditions that led to a continuous decrease in demand of MT products, MT business was unable to generate sufficient revenue to support its operating cost, as a result, the Group had incurred significant loss including large provisions made for slow moving inventories in the past years. In considering the overseas technology centres were high cash burn units that increase the financial burden to the Group, the Group had made its efforts to dispose of MT related assets during the second half of the year but no successful offers had been received. In view of the continued loss-making position of the MT business and the intensified market competition in the integrated circuit industry, the Board had decided to cease operations of overseas technology centres in order to reduce on-going expenses.

Consequently, the Directors performed impairment review of the carrying amounts of intellectual properties in accordance with HKAS 36. HKAS 36 defines impairment loss as the amount by which the carrying amount of an asset or a cash-generating unit ("CGU") exceeds its recoverable amount. The recoverable amount of the CGU of maXTouch® intellectual properties has been determined based on a value in use calculation using cash flow projections covering the estimated remaining useful life of 2 years. In view that there will be no significant revenue generated from MT business after the closure of technology centres, the Directors have determined impairment of remaining balance of intellectual properties (US$6.8 million) directly related to MT business.

(ii) Write-off of goodwill (US$2.3 million) and intellectual properties (US$1.2 million) in relation to MD business

On the other hand, Sentron Inc., ("Sentron") a non-wholly owned subsidiary of the Group which was acquired in 2017, specialized in TDDI technology, the goodwill (US$2.3 million) arising from the acquisition and intellectual properties (US$1.2 million) were fully impaired during the year.

The Group with reference to a valuation report prepared by an independent professionally qualified valuer, at least on an annual basis, in assessing the impairment on the goodwill and related to intellectual properties allocated to the TDDI CGU. The recoverable amount of this TDDI CGU has been determined based on a value in use calculation using cash flow projections approved by management coving a five-year period and beyond that extrapolated with 2% growth rate and a pre-tax discount rate of 18%. The discount rate is estimated by using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to this CGU. In view of change of business plan of MD that will focus on other more profitable products using other technologies and low revenue generating from products using TDDI technology, the Directors have determined impairment of goodwill and intellectual properties in relation to Sentron is necessary.

Nevertheless, the Group will continue to explore more markets for the MD products.

Other Income and Gains – Net

Other income in 2019 totalled US$4.1 million (2018: US$4.6 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 2019, the Group recorded an interest income of US$0.1 million (2018: US$0.4 million) and a dividend income of US$0.03 million (2018: US$0.1 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 2019 recorded a net fair value gain of US$0.5 million (2018: net fair value loss US$0.7 million) on marketable and listed debt or equity securities. A net fair value loss of US$0.5 million (2018: net fair value gain of US$2.2 million) was recorded for a derivative instrument.

As a result, the Group recorded a net finance income of US$1,000 (2018: US$2.0 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 2019.

There is no FVTPL Portfolio maintained as at 31 December 2019 due to redemption of bonds and funds on maturity during the year. The Group will look for more investment opportunity and expects a stable stream of income to be sustained.

Net Profit and Loss

For the year ended 31 December 2019, the pretax loss was US$28.2 million (2018: US$13.8 million). The loss attributable to the equity holders of the Company was US$27.3 million (2018: US$13.7 million), mainly due to impairment of intellectual properties and goodwill.

Liquidity and Financial Resources

As at 31 December 2019, total cash and cash equivalents and bank deposits of the Group amounted to US$18.1 million (2018: US$13.4 million).

Regarding the use of cash reserves, the Group will continue to allocate funds for product development, securing production capacity, strengthening its infrastructure in Mainland China and Taiwan to broaden its customer base and capture market and sales opportunities, entering into strategic corporate ventures, and meeting general corporate operational purposes. As at 31 December 2019, 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.

Capital Expenditure and Contingent Liabilities

In 2019, capital expenditure of the Group was US$0.3 million (2018: US$1.9 million).

As at 31 December 2019, capital expenditure contracted for but not yet incurred was approximately US$0.2 million (2018: US$14,000).

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

BUSINESS REVIEW AND OUTLOOK

In 2019, the Group recorded an increase in total shipments of around 4% year-on-year to approximately 308.7 million units and an increase in total sales of around 10% to approximately US$108.3 million. The increase in shipments and sales was mainly attributable to the growth of the large display driver IC business. Our business market was generally stable, with revenue growths in some business segments.

Following the business direction in expanding the PMOLED series of products, the Group came to fruition in the reporting period by making a breakthrough in scientific research and pushing technological boundaries. The technology used in this cutting-edge product can be applied to much larger-sized displays, thus widening the range of applications and optimizing user experience in the ever-changing market. We believe that such innovative technology can be used to produce various types of products and system solutions applicable to different industries, satisfying the needs of the household and industrial application markets, thus bringing benefits and satisfactory return to the Group.

The establishment of Solomon Systech (China) Limited, which is located in Nanjing Jiangbei New Area, is part of the Group's key strategic plan to expand the Mainland China market. We have built strong affinity and maintain open communication with the local government, Nanjing Economic Development Administration and the industry, in an effort to understand the local business environment and the competitive advantages of a Hong Kong company that is exploring the Mainland China market, thus enabling us to adjust our business development strategies and seek for opportunities and partners at the right time. Currently, its product portfolio consists of mainly large display driver ICs. In the future, we will concentrate on expanding our business focus to cover areas such as research and development, design, sales and marketing. While attracting and cultivating local talents, it will also apply current technologies in Hong Kong to the business in Mainland China, thereby fostering the future development of the Group in Mainland China.

The Group's unit shipments by product types during the reporting period were as follows:

Units Shipped (million units)	2019	2018	Change
Advanced Display	134.9	184.4	–27%
Large Display	122.6	58.0	111%
Others	51.2	53.4	–4%
Total	308.7	295.8	4%

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 customized IC design services, including analog, mixed-signal and high-voltage IC designs to cater for the specific needs of customers. With its strength in cutting-edge technologies and research capabilities, a number of internationally renowned brands have become the Group's loyal customers, who placed orders with the Group for wearables and smart home appliances during the reporting period, representing a growth opportunity in customers' demand for higher resolution gray scale displays as opposed to monochrome displays.

In 2019, the total unit shipments of AD products recorded a year-on-year decrease of more than 20% to approximately 134.9 million units. Although the Group's PMOLED display driver IC business grew steadily in the first half of 2019, the overall sales of standard PMOLED display driver ICs of the Group was weakened due to the dwindling demand in some application markets in the second half of the year.

It is gratifying that our PMOLED display IC SSD7317, the first of its kind in the world, has won several awards since its launch in 2018. During the reporting period, it came second in the "Hong Kong Electronics Project Competition 2019" organized by the Hong Kong Institution of Engineers.

Benefiting from a surge in the demand for electronic shelf label and the business model of retail automation in target markets including Japan and the United States, the strong growth momentum of the bistable display IC business of the Group continued throughout the year. The Group's newly developed products, the N-Color bistable color display IC which supports seven colors and the bistable color display panels in sizes ranging from 4 to 7 inches, have been put into mass production in 2019.

Large Display

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

Since the establishment of the strategic Mainland China business and technology center in Nanjing, it has been delivering a strong growth for the Group's large-display driver IC business for two consecutive years. It demonstrated stellar performance by achieving a year-on-year increase of more than one fold in unit shipments to 122.6 million units in 2019 (2018: 58 million units).

The Group succeeded in significantly increasing its share of the 4K UHD TV and FHD monitor businesses in its customers in 2018, and started to ship the products supporting high-end 144Hz displays in bulk during the reporting period, resulting in a significant increase in the overall product shipments and sales. The Group also continued to collaborate with the fab in Chengdu to develop a point-to-point display driver IC, targeting the high-end 120Hz UHD TV and 8K TV markets.

The Group is committed to establishing an impeccable production supply chain in Mainland China, thereby enhancing the overall competitive advantage of its business and increasing its turnover and net profit margin. During the year, the business unit obtained the qualification as a display control driver integrated circuit engineering research center in Nanjing.

Others

Apart from AD and LD products, the Group also provides other products, including MD and MT products.

MD products can be used for smartphones and TFT LCD display driver ICs as well as MIPI bridge ICs which support virtual reality devices, test jigs and smart watches, etc. The Group's In-Cell TDDI IC for FHD+(1080 x 2160) LTPS panels and DDI IC for FHD (1080 x 1920) IGZO panels were well recognized by smartphone manufacturers in Mainland China, with mass production commencing in the second half of the year. The Group also received orders for MIPI bridge ICs, which have a range of applications such as baby monitors, automotive rear camera devices, test jigs, GPS devices and learning devices, etc.

The unit shipments of this category of products saw a slight increase of approximately 1% year-on-year to around 23.1 million units (2018: 22.8 million units).

During the reporting period, the MT business experienced restructuring so as to align with market direction. Nevertheless the Group continued to sell MT technology-based products mainly for the applications in video games.

The unit shipments of MT products were approximately 28.1 million units (2018: 30.6 million units), more than 70% of which were related to video games.

Outlook

Advanced Display

A key innovative product of the Group is the PMOLED display IC. This new product is planned to be put into trial production in the first half of 2020, with a view to bringing a promising market prospect and growth impetus to the Group. The Group will also continue to capitalize on the growth potentials of smart home appliances and AIoT with grayscale displays to drive business growth.

The Group's bistable display driver IC business, bolstered by the constant development in retail automation, is set to continue its strong growth momentum in 2020. In addition to current use in supermarket chains, the Group aims to extend the use of electronic labels progressively to various forms of commercial applications including retail stores, logistics and transportation, asset management, and medical products. The Group has also been taking initiatives to develop a new generation bistable color display IC that supports multiple colors, keeping abreast with the market trend and future development of e-paper displays, and ensuring that its technology stays at the forefront of the industry and stands out from its peers.

Large Display

Benefiting from Mainland China's domestic demand, the Group's TV and display businesses have been enjoying unwavering growth, and are ready to bring a robust surge in its large display driver IC business in 2020.

Looking ahead, the Group will continue its active search for more quality potential customers, with an aim of becoming one of the largest display chip suppliers in Mainland China. With the point-to-point display driver IC for the high-end 120 Hz UHD TV and 8K TV markets jointly developed with the new wafer fab in Chengdu, the Group will be able to take advantage of the market opportunities and increase its market share.

Others

The Group's MD products are expected to continue their revenue generation for the Company in 2020. In addition to strengthening its existing businesses, the Group will also expand the market and grow its customer base, extending the applications of its In-Cell TDDI IC, DDI IC and MIPI bridge IC to areas including smartphones, smart watches and public information displays. To lay a solid foundation for future development, the Group will increase its efforts in creating value for its customers, by participating in more projects that are tailor-made for the customers, developing key customers and cultivating a win-win relationship that will help achieve the Group's long-term development objectives.

The Group's MT products have also been incorporated by internationally renowned brands of video games in their designs and orders are scheduled to be delivered in 2020.

Product Development

In 2019, the Group spent approximately US$24.7 million on R&D, representing about 46% of total expenses and 22.8% 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, 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 us to drive sales growth in response to fulfilling market needs promptly and maintaining our competitive edges.

IP Development

The IPs that have been developed or were under development during 2019 included, among others, high dynamic electric current source for Micro-LED and Mini-LED backlight technology for 2D local dimming; capless high voltage regulator for ePaper; multi-line addressing scheme for PMOLED; hybrid on-cell and in-cell touch control technology for PMOLED; USI-T high-speed interface and panel fan-out compensation for large display.

During the year, the Group has been granted 17 patents, almost doubling the figure for last year, and filed 8 patents covering various display designs and application areas. With the competitive advantage of over 600 patents, the Group plans to enrich and extend its intellectual property portfolio by allocating more resources in patent application, with an objective to create synergies and enhance growth efficiency.

HUMAN RESOURCES

As of 31 December 2019, the Group had a total workforce of 284 employees. Of the total workforce, around 41% were based in the Hong Kong head office with the rest located in Mainland China, Japan, Korea and Taiwan.

EVENTS AFTER THE REPORTING YEAR

Since the outbreak of the COVID-19 epidemic (the "Epidemic") across the Mainland China in January 2020, various emergency public health measures have been imposed by the government of the Mainland China across multiple provinces and municipalities in the Mainland China to curb the spread of the Epidemic, including imposing restriction on the resumption date of work after the Chinese New Year holidays. Our employees in Mainland China also resumed work in an orderly manner according to the local government authorities' guidelines.

In view of the Group and its subsidiaries are fabless semiconductor companies, we rely on our supply chain partners whose production base in the Mainland China to fulfil our sales order. However, due to the suspension or limited service of transportation facilities in various cities in the Mainland China to prevent the spread of Coronavirus, our business partners were unable to resume work as planned. As a result, the Group experienced delay in shipment which would directly affect our overall revenue in the first quarter of 2020. Under such special circumstances, the Group used its best endeavours to liaison with both customers and suppliers to closely follow up the delivery schedule to minimize any negative economic impact on its business.

The Board is of the view that the delay in resumption of operation in the Mainland China as abovementioned has only had a temporary impact on the Group's overall productivity. We implemented contingency plan to secure normal operation of our supply chain so as to satisfy customers' needs.

While keeping health and safety of the Group's employees as the top priority, the Board will continue to monitor the development of the Epidemic, assess the potential risks and impact that it may have on the Group's operation.

Up to the date on which these consolidated financial statements are issued, the Group is still in the process of assessing the impacts of the Epidemic on the financial performance and position of the Group and is currently unable to estimate the quantitative impacts to the Group. The management of the Group will pay close attention to the development of the Epidemic and perform further assessment of its financial impact.

The Epidemic is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial statements for the year ended 31 December 2019.

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 2019.

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

For the year ended 31 December 2019, 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 2019.

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 2019. 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 2019 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 2019.

CLOSURE OF REGISTERS OF SHAREHOLDERS

The Register of Shareholders of the Company will be closed from 18 May 2020 to 20 May 2020 (both days inclusive), during which no transfer of shares can be registered. In order to qualify for attending the 2020 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 54, Hopewell Center, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 15 May 2020, 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 27 March 2020.

DEFINITIONS AND GLOSSARY

AMEPD	Active Matrix Electrophoretic Display
AMOLED	Active Matrix Organic Light Emitting Diode
Board	Board of Directors
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
Group	The Company and its subsidiaries
HK$/HKD	Hong Kong dollars
HKAS	Hong Kong Accounting Standards
HKFRS	Hong Kong Financial Reporting Standards, or collectively for HKAS and Hong Kong Financial Reporting Standards
Hong Kong/HK/HKSAR	Hong Kong Special Administrative Region of the PRC
IC	Integrated Circuit
IGZO	A semiconductor material consisting of indium (In), gallium (Ga), zinc (Zn) and oxygen (O)
IP	Intellectual Property
LCD	Liquid Crystal Display
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
LTPS	Low Temperature Polysilicon, a technology for the manufacturing of TFT-LCD
Mainland China	Mainland China, for the purpose of this report, excludes Hong Kong and Macau Special Administrative Regions of the PRC
MIPI	Mobile Industry Processor Interface
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
OLED	Organic Light Emitting Diode
PMOLED	Passive Matrix Organic Light Emitting Diode
POLED	Plastic Organic Light Emitting Diode
R&D	Product design, development and engineering
S&D	Selling and Distribution
The Stock Exchange	The Stock Exchange of Hong Kong Limited
TDDI	Touch and Display Driver Integration
TFT	Thin Film Transistor
UHD	Ultra high definition is a display resolution standard of 3840 x 2160 pixels (8.3 megapixels; 4K)
UK	United Kingdom
USA	United States of America
USI-T	Universal Samsung Interface for Television
US$/USD	US dollars

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

Hong Kong, 27 March 2020

As at the date of this announcement, the Board comprises: (a) Executive Directors – Mr. Wang Wah Chi, Raymond (Chief Executive Officer) and Mr. Lo Wai Ming; (b) Non-executive Directors – Mr. Ma Yuchuan (Chairman), Dr. Li Jun and Mr. Yu Jian; and (c) Independent Non-executive Directors – Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Mr. Yiu Tin Chong, Joseph.