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

**2014 FINAL RESULTS ANNOUNCEMENT**

**FINANCIAL HIGHLIGHTS**

- Sales increased by 9% to US\$60.1 million
- Gross profit decreased slightly by 1% to US\$20.8 million
- Gross margin was 34.6%, down 3.5 percentage points because of a provision of US\$2.2 million on slow moving inventories
- Net loss was US\$3.0 million, mainly due to additional investment in new products and technology
- Loss per share was 0.12 US cent (0.95 HK cent)
- Book-to-bill ratio was 1.1
- The Board of Directors resolved not to propose any final dividend for the year ended 31 December 2014

## FINAL RESULTS

The Directors of Solomon Systech (International) Limited are pleased to announce the consolidated results of the Company and its subsidiaries for the year ended 31 December 2014 together with the comparative figures for the corresponding year as follows:

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

|   | Note | 2014<br>US\$'000 | 2013<br>US\$'000 |
|---|------|------------------|------------------|
| Sales   | 4(a) | 60,072           | 55,150           |
| Cost of sales   | 5    | (39,276)         | (34,154)         |
| Gross profit  |      | 20,796           | 20,996           |
| Research and development costs  | 5    | (16,289)         | (13,854)         |
| Selling and distribution expenses   | 5    | (3,042)          | (3,092)          |
| Administrative expenses   | 5    | (8,023)          | (8,130)          |
| Other income  | 6    | 141              | 956              |
|   |      | (6,417)          | (3,124)          |
| Finance income – net  | 7    | 3,365            | 3,913            |
|   |      | (3,052)          | 789              |
| Share of results of associated companies  |      | 71               | 37               |
| Profit/(loss) before income tax   |      | (2,981)          | 826              |
| Income tax credit/(expenses)  | 8    | (24)             | 508              |
| Profit/(loss) attributable to the equity holders of the Company   |      | (3,005)          | 1,334            |
| Earnings/(loss) per share attributable to the equity holders of the Company: (expressed in US cent per share) | 9    |                  |                  |
| - Basic   |      | (0.12)           | 0.05             |
| - Diluted   |      | (0.12)           | 0.05             |
| Dividend  | 10   | —                | —                |

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

|   | 2014<br>US\$'000 | 2013<br>US\$'000 |
|---|------------------|------------------|
| Profit/(loss) for the year  | (3,005)          | 1,334            |
| Other comprehensive income/(loss) for the year:                                     |                  |                  |
| Item that may be reclassified to profit or loss                                     |                  |                  |
| - Currency translation differences  | (128)            | 363              |
| Total comprehensive income/(loss) attributable to the equity holders of the Company | (3,133)          | 1,697            |

## CONSOLIDATED BALANCE SHEET

As at 31 December 2014

|   | Note | 2014<br>US\$'000 | 2013<br>US\$'000 |
|---|------|------------------|------------------|
| <b>ASSETS</b>   |      |                  |                  |
| <b>Non-current assets</b>   |      |                  |                  |
| Intangible assets   |      | 60               | 163              |
| Property, plant and equipment   |      | 2,593            | 3,078            |
| Investments in associated companies   |      | 780              | 709              |
| Available-for-sale financial assets   |      | 2,206            | 2,206            |
| Prepayments   | 11   | 215              | —                |
| Bank deposits   |      | 9,836            | 9,836            |
|   |      | <b>15,690</b>    | <b>15,992</b>    |
| <b>Current assets</b>   |      |                  |                  |
| Inventories   |      | 7,334            | 7,849            |
| Trade and other receivables   | 11   | 16,357           | 10,875           |
| Financial assets at fair value through profit or loss                         |      | 65,209           | 71,087           |
| Pledged bank deposits   |      | 130              | 130              |
| Short-term fixed deposits   |      | 402              | 10,846           |
| Cash and cash equivalents   |      | 25,013           | 12,181           |
|   |      | <b>114,445</b>   | <b>112,968</b>   |
| <b>Total assets</b>   |      | <b>130,135</b>   | <b>128,960</b>   |
| <b>EQUITY</b>   |      |                  |                  |
| <b>Capital and reserves attributable to the equity holders of the Company</b> |      |                  |                  |
| Share capital   |      | 31,803           | 31,720           |
| Reserves  |      |                  |                  |
| Own shares held   |      | —                | (89)             |
| Others  |      | 83,452           | 86,204           |
| <b>Total equity</b>   |      | <b>115,255</b>   | <b>117,835</b>   |
| <b>LIABILITIES</b>  |      |                  |                  |
| <b>Non-current liabilities</b>  |      |                  |                  |
| Bank loan   |      | 288              | 402              |
| Deferred income tax   |      | —                | —                |
|   |      | <b>288</b>       | <b>402</b>       |
| <b>Current liabilities</b>  |      |                  |                  |
| Obligations under finance leases  |      | —                | 2                |
| Trade and other payables  | 12   | 13,593           | 9,684            |
| Bank loan   |      | 89               | 95               |
| Deferred income   |      | 368              | 400              |
| Income tax  |      | 542              | 542              |
|   |      | <b>14,592</b>    | <b>10,723</b>    |
| <b>Total liabilities</b>  |      | <b>14,880</b>    | <b>11,125</b>    |
| <b>Total equity and liabilities</b>   |      | <b>130,135</b>   | <b>128,960</b>   |
| <b>Net current assets</b>   |      | <b>99,853</b>    | <b>102,245</b>   |
| <b>Total assets less current liabilities</b>                                  |      | <b>115,543</b>   | <b>118,237</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

### 1. General information

Solomon Systech (International) Limited and its subsidiaries are fabless semiconductor companies specializing in the design, development and sales of proprietary integrated circuits products and system solutions that enable a wide range of display applications for smartphones, smart TVs and other smart devices including consumer electronics products, portable devices, industrial appliances and green energy applications.

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 309, Umland House, Grand Cayman, KY1-1104, 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.

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

### 2. Basis of preparation

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

### 3. Significant accounting policies

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

#### (a) Amendments to standards and interpretation to existing standards effective in 2014

The Group has adopted the following amendments to standards and interpretation to existing standards that have been issued and are effective for the Group's financial year commencing on 1 January 2014:

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|   |   |
|---|---|
| • HKAS 32 (Amendment)                         | Financial Instruments Presentation: Assets and Liabilities Offsetting         |
| • HKAS 36 (Amendment)                         | Impairment of Assets: Recoverable Amount Disclosures for Non-Financial assets |
| • HKAS 39 (Amendment)                         | Financial Instruments: Recognition and Measurement (novation of derivatives)  |
| • HKFRS 10, 12 and HKAS 27 (2011) (Amendment) | Consolidation for Investment Entities   |
| • HK(IFRIC) – Interpretation 21               | Levies  |

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

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

**(b) New standards and amendments to standards that are not effective and have not been early adopted by the Group**

The following new standards and amendments to standards have been issued, but are not effective for the financial year beginning 1 January 2014 and have not been early adopted by the Group:

|                                       |  | <b>Effective for<br/>annual periods<br/>beginning on or after</b> |
|---------------------------------------|--|---|
| • HKAS 1 (Amendment)                  | Disclosure Initiative  | 1 January 2016  |
| • HKAS 19 (2011) (Amendment)          | Defined Benefit Plans  | 1 July 2014   |
| • HKAS 16 and 38 (Amendment)          | Clarification of Acceptable<br>Methods of Depreciation<br>and Amortization                     | 1 January 2016  |
| • HKAS 16 and 41 (Amendment)          | Agriculture: Bearer Plants   | 1 January 2016  |
| • HKAS 27 (Amendment)                 | Equity method in Separate<br>Financial Statements  | 1 January 2016  |
| • HKFRS 9                             | Financial Instruments  | 1 January 2018  |
| • HKFRS 10 and HKAS 28<br>(Amendment) | Sale or Contribution of<br>Assets between an<br>Investor and its Associate<br>or Joint Venture | 1 January 2016  |
| • HKFRS 11 (Amendment)                | Accounting for Acquisitions<br>of Interests in Joint<br>Operations                             | 1 January 2016  |
| • HKFRS 14                            | Regulatory Deferral<br>Accounts  | 1 January 2016  |
| • HKFRS 15                            | Revenue from Contracts with<br>Customers   | 1 January 2017  |
| • HKFRSs (Amendments)                 | Annual Improvements 2012,<br>2013  | 1 July 2014   |
| • HKFRSs (Amendments)                 | Annual Improvements 2014   | 1 January 2016  |

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

#### **4. Segment information**

During the year, the Group has principally engaged in the design, development and sales of proprietary IC products and system solutions that enabled a wide range of display applications for smartphones, smart TVs and other smart devices including consumer electronics products, portable devices, industrial appliances and green energy applications.

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

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

Sales amounted to US\$60,072,000 and US\$55,150,000 for the years ended 31 December 2014 and 2013 respectively.

The Company is domiciled in Hong Kong. The Group mainly operates in Hong Kong. During 2014, the Group's products were mainly sold to customers located in China, Europe and Hong Kong.

**(a) Sales**

|                 | 2014<br>US\$'000 | 2013<br>US\$'000 |
|-----------------|------------------|------------------|
| China           | 18,623           | 12,452           |
| Europe          | 10,349           | 7,896            |
| Hong Kong       | 9,998            | 14,589           |
| Taiwan          | 9,094            | 9,363            |
| Korea           | 5,393            | 3,816            |
| Japan           | 2,755            | 2,146            |
| South East Asia | 2,469            | 4,088            |
| USA             | 753              | 486              |
| Others          | 638              | 314              |
|                 | <b>60,072</b>    | <b>55,150</b>    |

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

**(b) Total assets**

|                 | 2014<br>US\$'000 | 2013<br>US\$'000 |
|-----------------|------------------|------------------|
| Hong Kong       | 105,551          | 105,046          |
| China           | 18,862           | 18,520           |
| Taiwan          | 5,074            | 4,857            |
| South East Asia | 498              | 484              |
| Others          | 150              | 53               |
|                 | <b>130,135</b>   | <b>128,960</b>   |

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

**(c) Capital expenditures**

|                 | Investments in                   |                  |                      |                  |
|-----------------|----------------------------------|------------------|----------------------|------------------|
|                 | Property,<br>plant and equipment |                  | Intangible<br>assets |                  |
|                 | 2014<br>US\$'000                 | 2013<br>US\$'000 | 2014<br>US\$'000     | 2013<br>US\$'000 |
| Hong Kong       | 213                              | 170              | —                    | —                |
| China           | 223                              | 142              | —                    | 174              |
| South East Asia | 28                               | 28               | —                    | —                |
| Others          | 9                                | 37               | —                    | —                |
|                 | <b>473</b>                       | <b>377</b>       | <b>—</b>             | <b>174</b>       |

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

**(d) Major customers**

Details of customers accounted for 10% or more of total sales of the Group are as follows:

| Customer and location |        | 2014<br>US\$'000 | 2013<br>US\$'000 |
|-----------------------|--------|------------------|------------------|
| Customer A            | China  | 12,018           | N/A              |
| Customer B            | Europe | 6,431            | N/A              |

## 5. Expenses by nature

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

|  | 2014     | 2013     |
|--|----------|----------|
|  | US\$'000 | US\$'000 |
| Cost of inventories sold                                       | 36,026   | 32,100   |
| Product engineering costs                                      | 3,221    | 2,135    |
| Provision for obsolete or slow moving inventories              | 2,169    | 711      |
| Amortization of intangible assets                              | 27       | 11       |
| Depreciation of owned property, plant and equipment            | 851      | 1,400    |
| Depreciation of leased property, plant and equipment           | 1        | 1        |
| Operating leases for land and buildings                        | 1,040    | 1,037    |
| Auditor's remuneration   | 191      | 179      |
| Employee benefit expenses<br>(excluding Directors' emoluments) | 18,217   | 16,710   |
| Directors' emoluments  | 723      | 702      |
| Net exchange gain  | (122)    | (54)     |

## 6. Other income

|   | 2014     | 2013     |
|---|----------|----------|
|   | US\$'000 | US\$'000 |
| Gain/(loss) on disposal of intangible assets and property, plant<br>and equipment | (71)     | 770      |
| Others  | 212      | 186      |
|   | 141      | 956      |

## 7. Finance income – net

|   | 2014     | 2013     |
|---|----------|----------|
|   | US\$'000 | US\$'000 |
| Interest income                           | 2,030    | 2,464    |
| Dividend income                           | 955      | 539      |
| Gain/(loss) on disposal of FVTPL          | 914      | (23)     |
| Net unrealizable gain or loss from FVTPL: |          |          |
| – Fair value gain                         | 1,249    | 2,005    |
| – Fair value loss                         | (1,784)  | (1,077)  |
| Interest expense of bank loan             | (8)      | (10)     |
| Others                                    | 9        | 15       |
|   | 3,365    | 3,913    |

## 8. Income tax

Hong Kong income tax has been provided at the rate of 16.5% (2013: 16.5%) while overseas income tax has been provided at the rates of taxation prevailing in the countries in which the Group operates.

|   | 2014<br>US\$'000 | 2013<br>US\$'000 |
|---|------------------|------------------|
| Current income tax:                               |                  |                  |
| - Hong Kong                                       | —                | 88               |
| - Overseas  | 24               | 2                |
| Write-back of income tax provision in prior years | —                | (548)            |
| Deferred income tax                               | —                | (50)             |
|   | 24               | (508)            |

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

|   | 2014<br>US\$'000 | 2013<br>US\$'000 |
|---|------------------|------------------|
| Profit/(loss) before income tax                   | (2,981)          | 826              |
| Income tax calculated at a tax rate of 16.5%      | (492)            | 136              |
| Income not subject to tax                         | (631)            | (881)            |
| Expenses not deductible for tax purposes          | 114              | 25               |
| Income tax losses not recognized                  | 1,033            | 760              |
| Write-back of income tax provision in prior years | —                | (548)            |
|   | 24               | (508)            |

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of US\$9,876,000 (2013: US\$8,843,000) in respect of losses amounting to US\$59,851,000 (2013: US\$53,594,000) that can be carried forward against future taxable profits. These tax losses have no expiry date.

## 9. Earnings/loss per share

### (a) Basic earnings/loss per share

The basic earnings/loss per share for the year is calculated based on the Group's loss in 2014 attributable to the equity holders of the Company of US\$3,005,000 (2013 profit: US\$1,334,000) and the weighted average number of 2,462,430,618 (2013: 2,457,154,439) ordinary shares in issue excluding own shares held during the year.

### (b) Diluted earnings/loss per share

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

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

|  | Number of shares |               |
|--|------------------|---------------|
|  | 2014             | 2013          |
| Weighted average number of ordinary shares in issue  | 2,462,430,618    | 2,457,154,439 |
| Allocated own shares held under Share Award Scheme   | —                | 3,518,646     |
| Conversion of all dilutive share options outstanding <sup>(i)</sup>                                  | —                | 4,368,918     |
| Adjusted weighted average number of ordinary shares for diluted earnings/ loss per share calculation | 2,462,430,618    | 2,465,042,003 |

(i) As at 31 December 2014, there were 20,600,000 share options outstanding which could potentially have a dilutive impact but were anti-dilutive for the year then ended. Hence, there was no dilutive effect on the calculation of the diluted loss per share for the year ended 31 December 2014.



## 10. Dividend

No dividend for the years ended 31 December 2014 and 2013 was declared or paid by the Company. In addition, the Board resolved not to propose any final dividend for the year ended 31 December 2014.

## 11. Trade and other receivables

|   | 2014<br>US\$'000 | 2013<br>US\$'000 |
|---|------------------|------------------|
| Trade receivables                             | 8,194            | 7,007            |
| Trade receivable from a related party         | 4,810            | 1,271            |
| Trade receivables – net                       | 13,004           | 8,278            |
| Deposits, prepayments and other receivables   | 3,102            | 2,436            |
| Prepayment to related party                   | 251              | 161              |
| Trade and other receivables – current portion | 16,357           | 10,875           |
| Prepayments – non-current portion             | 215              | —                |
|   | 16,572           | 10,875           |

As at 31 December 2014, the Group's trade receivables from corporate customers were mainly on credit terms of 30 to 90 days. The ageing analysis of trade receivables not impaired based on overdue days is as follows:

|                | 2014<br>US\$'000 | 2013<br>US\$'000 |
|----------------|------------------|------------------|
| Current        | 9,818            | 6,203            |
| 1 - 30 days    | 2,389            | 1,563            |
| 31 - 60 days   | 570              | 369              |
| 61 - 90 days   | 169              | 93               |
| 91 - 180 days  | 58               | 31               |
| 181 - 365 days | —                | 19               |
|                | 3,186            | 2,075            |
|                | 13,004           | 8,278            |

As at 31 December 2014, trade receivables of US\$3,186,000 (2013: US\$2,075,000) were considered past due if measured strictly against the credit terms offered. As at 31 December 2014, all the overdue balances is not impaired since the most of the overdue balances has been settled after the balance sheet date.

As at 31 December 2014 and 2013, no trade receivables were impaired and provided for.

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

|                  | 2014<br>US\$'000 | 2013<br>US\$'000 |
|------------------|------------------|------------------|
| USD              | 14,095           | 9,002            |
| CNY              | 1,324            | 826              |
| HKD              | 979              | 924              |
| Other currencies | 174              | 123              |
|                  | 16,572           | 10,875           |

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

## 12. Trade and other payables

|                                     | 2014<br>US\$'000 | 2013<br>US\$'000 |
|-------------------------------------|------------------|------------------|
| Trade payables                      | 10,638           | 5,694            |
| Accrued expenses and other payables | 2,955            | 3,990            |
|                                     | <b>13,593</b>    | <b>9,684</b>     |

At 31 December 2014, the ageing analysis of the trade payables based on overdue day is as follows:

|              | 2014<br>US\$'000 | 2013<br>US\$'000 |
|--------------|------------------|------------------|
| Current      | 9,180            | 4,091            |
| 1 - 30 days  | 1,309            | 1,375            |
| 31 - 60 days | 58               | 135              |
| 61 - 90 days | —                | 28               |
| Over 90 days | 91               | 65               |
|              | <b>10,638</b>    | <b>5,694</b>     |

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

|                  | 2014<br>US\$'000 | 2013<br>US\$'000 |
|------------------|------------------|------------------|
| USD              | 11,425           | 7,201            |
| HKD              | 1,076            | 1,176            |
| CNY              | 772              | 1,010            |
| Other currencies | 320              | 297              |
|                  | <b>13,593</b>    | <b>9,684</b>     |

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Overview

For the year ended 31 December 2014, the Group managed to achieve solid year-on-year growth in both unit shipments and sales. Total shipment units was approximately 115 million and sales amounted to US\$60.1 million. The book-to-bill ratio was 1.1 (2013: 0.86).

Despite the sales increase, the Group recorded a net loss of US\$3.0 million, having invested to strengthen new technology development and new product introduction, and also to enhance customer outreach activities.

#### Sales and Gross Profit

The Group's total shipments increased by around 27% to approximately 115 million units (2013: 91 million units), while the total sales rose 9% to US\$60.1 million (2013: US\$55.2 million).

Gross profit of the Group was US\$20.8 million (2013: US\$21.0 million), decreased slightly by 1%. Gross margin decreased by 3.5 percentage points to 34.6% (2013: 38.1%) because of a provision of US\$2.2 million (2013: US\$0.7 million) on slow moving inventory. Excluding the inventory provisions, the gross margins for the two years were at a comparable level.

#### Costs and Expenses

The Group has remained vigilant in controlling its expenses. The Group's total expenses, including product R&D costs, S&D expenses and administrative expenses, were US\$27.4 million, up by US\$2.3 million, representing an increase of 9%. This was mainly due to the increase in product R&D costs.

The Group continued to invest in product R&D and business development and remained selective in its product R&D spending. To strengthen new technology development and new product introduction, and

also enhance customer outreach activities, its product R&D costs in the year increased US\$2.4 million to US\$16.3 million (2013: US\$13.9 million), up 18% year-on-year.

S&D expenses were US\$3.0 million (2013: US\$3.1 million), a slight decrease of US\$0.1 million year-on-year. S&D expenses to sales ratio was 5.1% (2013: 5.6%).

Administrative expenses were US\$8.0 million, slightly decreased by US\$0.1 million compared with US\$8.1 million in 2013.

### **Other Income**

Other income in 2014 totalled US\$0.1 million (2013: US\$1.0 million). US\$0.8 million of the other income in 2013 was attributed to a gain on disposal of certain manufacturing equipment.

### **Finance Income – Net**

During 2014, the Group recorded an interest income of US\$2.0 million (2013: US\$2.5 million) as well as dividends and other income of US\$1.9 million (2013: US\$0.5 million) from FVTPL, totaling US\$3.9 million (2013: US\$3.0 million). In addition, a net unrealized loss of US\$0.5 million (2013 net unrealizable gain: US\$0.9 million) was recorded from the investment in the FVTPL portfolio pursuant to mark-to-market price as at 31 December 2014.

### **Net Profit and Loss**

For the year ended 31 December 2014, the loss attributable to the equity holders of the Company was US\$3.0 million (2013 profit: US\$1.3 million), having invested to strengthen new technology development and new product introduction, and also to enhance customer outreach activities.

### **Liquidity and Financial Resources**

Total cash and cash equivalents and bank deposits (both current and non-current) of the Group amounted to US\$35.3 million as at 31 December 2014, compared to US\$32.9 million as at 31 December 2013.

Net cash used in operating activities during the year was US\$6.0 million (2013: US\$2.4 million). The cash outflow in operating activities was mainly due to the net loss before income tax of US\$3.0 million and the slightly increase in working capital, which comprised net of receivables, inventories and payables, amounted to US\$1.0 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 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 2014, the Group had no major borrowing other than the US\$0.4 million in a mortgage loan for the purchase of an office property in Hsinchu, Taiwan. 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 2014, capital expenditure of the Group was US\$0.5 million (2013: US\$0.6 million).

As at 31 December 2014, there was US\$0.2 million (2013: US\$0.02 million) capital expenditure contracted but not provided for in respect of the machineries purchase by the manufacturing subsidiary in China. As at 31 December 2013 and 2014, there was no material capital expenditure approved but not contracted for.

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

## BUSINESS PERFORMANCE AND OUTLOOK

### Business Performance

The Group's total shipments in 2014 achieved a strong year-on-year increase of around 27% to approximately 115 million units, while its total sales reached more than US\$60 million, climbing 9% year-on-year.

The overall upward trend in shipments culminated in the last quarter of the year. The quarter-to-quarter shipment volume also registered a continuous double-digit percentage growth since the beginning of the year. The increase in total shipments was mainly attributed to an increase in shipments in the Large Display and the Advanced Display businesses.

During the year, the Group has further expanded its product portfolio with high resolution, high performance and high value-added products targeting high volume and high growth market segments. A number of these products have been launched in the second half of the year with more in the pipeline ready to capture the potentially lucrative business opportunities arising. The Group has extended the application portfolio of its key products to broaden revenue sources. It is also noteworthy that the book-to-bill ratio for 2014 was 1.1, indicating that demand has outpaced supply.

### PRODUCT SHIPMENT (BY BUSINESS UNIT)

| Units Shipped (million units) | 2014         | 2013        | Change     |
|-------------------------------|--------------|-------------|------------|
| Advanced Display              | 68.8         | 57.5        | 20%        |
| Mobile Display                | 13.7         | 14.2        | (3%)       |
| Mobile System                 | 6.0          | 10.5        | (43%)      |
| Large Display                 | 26.2         | 8.3         | 216%       |
| <b>Total</b>                  | <b>114.7</b> | <b>90.5</b> | <b>27%</b> |

### Advanced Display

The Advanced Display business unit includes OLED display and lighting products, as well as bistable products. In addition to standard ICs, the Advanced Display business unit also provides custom IC design services, including analog, mixed-signal and high-voltage IC designs to cater to the specific needs of customers.

The total unit shipments of Advanced Display products recorded a strong rise of 20% year-on-year to 68.8 million units (2013: 57.5 million units). The increase was mainly due to the Group's success in capturing the rapidly growing wearables market, particularly during the second half of the year, and in further extending the range of applications for both its OLED and bistable products.

The Group's PMOLED display driver ICs scored a number of design-wins with world-renowned brands of wearable health and fitness devices, as well as in a wide variety of applications including healthcare devices, home audio systems, gaming devices, industrial applications, water heaters, set-top boxes, etc.

Subsequent to the launch of the AMOLED display driver IC for the first-ever qHD panel in China in 2013, the Group has been collaborating with customers to develop AMOLED driver ICs with a higher resolution. In 2014, a new AMOLED IC for HD display has been developed.

The bistable display business of the Group continued to grow during the year, and the Group has further extended the application portfolio of its AMEPD solutions through scoring design-wins for smart applications, including smart thermostats, healthcare products, smart cards, etc.

### Mobile Display

The Mobile Display business unit provides LCD display driver ICs targeting high resolution and high value-added applications, including smartphones, industrial and other portable applications.

During the year, the Group has achieved further advancement in shifting its focus towards higher resolution technologies and extending the application portfolios of its products. Towards this end, the Group has successfully produced a self-capacitive In-cell touch display driver IC for FWVGA panels at the end of 2014 to prepare for mass production in 2015.

The Group's HD TFT LCD driver IC for metal oxide panels has garnered the Grand Award for Technology Achievement in the prestigious Hong Kong Awards for Industries 2014, a solid recognition of the product's technological excellence and most importantly, the Group's technological innovation capability. The Group

has leveraged this award-winning product to start a new project for smartphones and tablets with a first-tier panel customer.

The Group also scored design-wins for other popular portable display applications, including automotive, printers, GPS, etc., further enhancing the revenue base of the business unit.

The unit shipments of Mobile Display products in 2014 were approximately 13.7 million units (2013: 14.2 million units), a slight 3% decrease year-on-year. The decrease was mainly attributed to changes in the business plans of key customers which caused reductions in the unit shipments of some key products of the Group. Moreover, some of the new products were not able to commence production in time to contribute to the total unit shipments for the year.

### **Mobile System**

The Mobile System business unit delivers a wide range of products, including capacitive touch panel controller ICs, high speed eDP display interface controller ICs, MIPI display interface controller ICs, graphic display controller ICs and multimedia processors, targeting system customers for applications spanning smart watches, smartphones, tablets, Ultrabooks, automotive DVRs, IP cameras, projectors, etc.

During the year, the Group's capacitive touch panel controller IC business has been slow due to delays in the launch of some new products. Nonetheless, the Group has invested in enhancing the new products with more value-added features, and reinforcing its design engineering to remain at the forefront of technology as well as sales and marketing capability. By the end of 2014, the Group has enriched its portfolio of touch panel controller ICs with an array of new products supporting a full range of touch technologies, including Out-cell, On-cell and also In-cell, ready to cater to different market needs. The Group has scored design-wins for applications including smartphones, education tablets, etc.

The Group's MIPI display interface controller ICs have made good inroads into the smart watches and other wearable devices market segments. It has scored design-wins for a number of smart watches as well as other applications including virtual reality headsets and tablets. The Group has also developed a new eDP-to-MIPI display interface controller IC for large-sized displays with WQXGA resolution, presenting another potential high value-added application for this product category.

The Group's graphic display controller ICs achieved design-wins including smart watches, industrial applications, IP cameras and multiple other consumer devices.

The total unit shipments of the Mobile System business unit saw a decrease of about 43% to 6.0 million units (2013: 10.5 million units) year-on-year, due primarily to new product launch delays.

### **Large Display**

The Large Display business unit focuses on providing large panel TFT display driver ICs for applications including TVs and monitors.

During the year, the total shipments of the Large Display business unit surged over two times year-on-year to 26.2 million units (2013: 8.3 million units). The growth momentum was especially strong in the second half of the year, as the Group's new large TFT display driver ICs for 18.5" HD monitors and 21.5" FHD monitors have completed qualifications and started mass production respectively in the second quarter and the third quarter of the year. These qualified new products have become components within the key product lines of our major customers, contributing to the increase in unit shipments.

During the year, a range of new products were also under development to continue to ride on the growth momentum to generate more business.

### **Outlook**

The 2014 book-to-bill ratio of 1.1 is a positive indicator for future growth. This favorable ratio, together with the growth momentum built up over the year, the enhanced array of products and the expanded application portfolios have set the stage for further growth in 2015.

The Group will strive to score additional design-wins and will continue to introduce more innovative and high performance products aimed at expanding its footprint in the high-growth, high-volume smart applications segments. The Group aims to ride further on the growing momentum to reach new business heights in 2015 and beyond.

## **Smartphones**

The Group's new In-cell touch display driver IC with enhanced features for FWVGA TFT LCD panels is expected to commence mass production during 2015 and contribute to the revenue stream. It is starting to develop another new In-cell touch display driver IC for FHD TFT LCD panels in 2015. The Group also aims to begin design-in projects with tier-one customers for its IGZO TFT LCD display driver ICs to capture the rising market opportunities.

The Group will leverage its innovative MIPI display interface controller ICs and the enhanced array of touch solutions, in particular On-cell and In-cell touch panel controller ICs to target first-tier system customers for smartphones, tablets and Ultrabooks to advance business growth.

The Group also target to have pilot production for its new AMOLED display driver IC for HD resolution displays in smartphones.

## **Smart TVs**

The start of 2015 has witnessed continued strong growth in the Group's business with its key customer for LCD TVs and monitors.

To ride on this momentum and set the stage for greater business growth, the Group will strengthen the design engineering resources and launch multiple new products in the coming year, aiming to further increase its share of this key customer's increased capacity.

## **Other Smart Devices**

The Group will continue to capitalize on the rapid expansion in the wearables market to ramp up shipments, in particular for PMOLED display driver ICs and MIPI display interface controller ICs.

The Group aims to further extend the applications of its PMOLED display ICs. New products for larger display size, higher resolution and DPI and curved surface color display are being developed to capture the growing market needs.

The Group expects to have its new OLED lighting driver IC for customer trial run during the year.

The Group will also tap further into the ESL business segment through expanding the application portfolio of its AMEPD solutions.

## **Product Development**

Product development has always been the cornerstone of the Group's business as innovation remains as its foundation. To enhance our strengths in target product display applications and pave the way for future growth, the Group has focused on developing new related technologies and also enhancing the features of and adding functionality to existing products. In 2014, the Group spent roughly US\$16.3 million on product R&D engineering, representing about 59% of total expenses and 27% of sales for the year.

As of 31 December 2014, the Group had a product R&D engineering workforce of 201 (2013: 195), representing 62% (2013: 60%) of our total employees (excluding those of a manufacturing subsidiary in China). The Group's product R&D engineering teams possess domain expertise in various areas, spanning from design of high-speed serial master bridges, projected capacitance multi-touch controller ICs and OLED lighting driver ICs, to display drivers for various panel technologies such as amorphous silicon TFT, metal-oxide TFT, LTPS, AMOLED, PMOLED, and AMEPD. This wide array of critical knowhow enables fast fulfillment of customers' sophisticated requirements. The Group continues to adopt wafer technologies as advanced as 55nm high voltage process on 12" wafer to address the challenge of increasingly higher resolution and lower power consumption in mobile consumer end products.

## **Numerous IPs Developed**

Many IPs have been developed or were under development during 2014 aiming at low power, high resolution smart applications. Highlights included self-capacitance multi-touch analog frontend (AFE) and parasitic capacitance compensation for in-cell touch panels, an enhanced quality video processing unit (VPU) and a 1/3 RAM memory compression codec for mobile display driver products. For PMOLED & AMOLED display drivers, high uniformity is one of the prime concerns of our customers, and we have developed a smart high-uniformity IP to achieve this. Our AMEPD display driver is one of the first of its kind in the industry. A new IP was developed and is capable of supporting single-color AMEPD displays. In addition, a low-voltage AFE has been realized for better display noise immunity in touch applications. Advanced algorithms for various noise avoidances and cancellations were also developed to achieve high SNR touch detections, and an advanced system-level power saving IP was developed for WQXGA eDP-



to-MIPI bridge IC.

All the above innovations have been further optimized with advanced low-power implementation techniques from frontend to backend designs, to ensure that the Group's products are not only smart but also environmentally friendly at the same time.

During the year, the Group has been granted eight patents covering various display design and application areas. The Group has also added resources to encourage patent application and filing, with a view to further strengthening its IP portfolio in the future.

## **PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SHARES**

The Remuneration Committee of the Company has directed HSBC Institutional Trust Services (Asia) Limited, the Trustee of the Share Award Plan, to utilize the funds made available under the Trust Deed to purchase existing shares from the market to replenish the pool of shares held by the Trustee pursuant to the share award scheme of the Company. The following purchase transactions were made during the year:

| Date of transaction | Number of shares purchased | Average HK\$ | Price per share |             |
|---------------------|----------------------------|--------------|-----------------|-------------|
|                     |                            |              | Highest HK\$    | Lowest HK\$ |
| 6 October 2014      | 110,000                    | 0.3900       | 0.3900          | 0.3900      |
| 7 October 2014      | 400,000                    | 0.3989       | 0.4000          | 0.3900      |
| 15 December 2014    | 752,480                    | 0.3392       | 0.3450          | 0.3350      |

Save as aforesaid, 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 2014.

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

For the year ended 31 December 2014, the Company has complied with all the applicable Code provisions in the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules. To maintain high standards of corporate governance, the Company has complied with certain recommended best practices in the Code.

Pursuant to the Code Provision A.6.7, Independent Non-executive Directors and Non-executive Directors should attend general meetings. Three Non-executive Directors of the Company were unable to attend the annual general meeting and the extraordinary general meeting of the Company held on 27 May 2014 and 8 October 2014 respectively due to their business engagements. All Independent Non-executive Directors and Non-executive Directors were present in the meetings and available to answer any questions from shareholders of the Company.

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 of the Directors have confirmed that they have been in compliance with such guidelines during the year ended 31 December 2014.

## **REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS**

The audit committee alongside with the corporate audit team of the Company has reviewed the annual results of the Group for the year ended 31 December 2014. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Group's independent auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## **FINAL DIVIDEND**

The Board resolved not to propose any final dividend for the year ended 31 December 2014.

## **CLOSURE OF REGISTERS OF SHAREHOLDERS**

The Register of Shareholders of the Company will be closed from Friday, 12 June 2015 to Tuesday, 16 June 2015 (both days inclusive), during which no transfer of shares can be registered. In order to qualify for attending the 2015 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 Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 11 June 2015.

## **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](http://www.hkex.com.hk)) and the Company's website ([www.solomon-systech.com](http://www.solomon-systech.com)) on 26 March 2015.



## Definitions and Glossary

|                    |  |
|--------------------|--|
| AMEPD              | Active Matrix Electrophoretic Display  |
| AMOLED             | Active Matrix Organic Light Emitting Diode   |
| Board              | Board of Directors   |
| China              | Mainland China   |
| Code Provision(s)  | Code Provision(s) in the Corporate Governance Code   |
| CNY                | Chinese Yuan, Renminbi   |
| Company            | Solomon Systech (International) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange |
| Director(s)        | The director(s) of the Company   |
| DVR                | Digital Video Recorder   |
| ESL                | Electronic Shelf Label   |
| FHD                | Full High Definition, a display resolution of 1920 x 1080 pixels   |
| FVTPL              | Financial assets/ liabilities at fair value through profit or loss   |
| GPS                | Global Positioning System  |
| Group              | The Company and its subsidiaries   |
| HD                 | High Definition, a display resolution of 1280 x 720 pixels   |
| HKD                | Hong Kong dollars  |
| Hong Kong/HK       | Hong Kong Special Administrative Region  |
| HKAS               | Hong Kong Accounting Standards   |
| HKFRS              | Hong Kong Financial Reporting Standards, or collectively for HKAS and Hong Kong Financial Reporting Standards  |
| HK(IFRIC)          | Hong Kong (International Financial Reporting Standards Interpretations Committee)  |
| IC                 | Integrated Circuit   |
| IP                 | Intellectual Property  |
| IP Camera          | Internet Protocol Camera   |
| 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  |
| OLED               | Organic Light Emitting Diode   |
| PMOLED             | Passive Matrix Organic Light Emitting Diode  |
| PRC                | The People's Republic of China   |
| qHD                | Quarter High Definition, a display resolution of 960 x 540 pixels  |
| R&D                | Design, development and engineering  |
| S&D                | Selling and Distribution   |
| TFT                | Thin Film Transistor   |
| TV                 | Television   |
| the Stock Exchange | The Stock Exchange of Hong Kong Limited  |
| Ultrabook          | High-end subnotebooks which are designed to feature reduced bulk without compromising battery life   |
| USA                | United States of America   |
| US\$/USD           | US dollars   |
| WQXGA              | Wide Quad Extended Graphics Array, a display resolution of 2560 x 1600 pixels  |

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

Hong Kong, 26 March 2015

As at the date of this announcement, the Board comprises: (a) Executive Directors – Dr. LEUNG Kwong Wai (Managing Director) and Mr. CHEUNG Wai Kuen, Kenny; (b) Non-executive Directors – Dr. LI Jun, Mr. LI Rongxin and Mr. ZHAO Guiwu; and (c) Independent Non-executive Directors – Mr. SUN, Patrick (Chairman), Mr. CHOY Kwok Hung, Patrick, Mr. LEUNG Heung Ying, Mr. SHEU Wei Fu and Mr. YIU Tin Chong, Joseph.