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**SOLOMON
SYSTECH**

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

晶門半導體有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

2022 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Revenue increased by about 13.5% to US\$190.8 million.
- Gross profit was US\$65.5 million, decreased by 2.7%.
- Gross margin was 34.3%, decreased by 5.7 percentage points.
- Profit attributable to owners of the parent was US\$27.8 million, increased by 16.8%.
- Earnings per share was 1.1 US cents (8.6 HK cents).
- The Board resolved not to declare any final dividend for the year ended 31 December 2022.

ANNUAL RESULTS

The Directors of Solomon Systech (International) Limited announce the consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2022 together with the comparative figures for the immediate preceding year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

| | Notes | 2022 US\$'000 | 2021 US\$'000 |
|--|-------|------------------|------------------|
| Revenue | 4 | 190,843 | 168,120 |
| Cost of sales | | (125,370) | (100,868) |
| Gross profit | | 65,473 | 67,252 |
| Research and development costs | | (27,071) | (30,421) |
| Selling and distribution expenses | | (4,221) | (2,960) |
| Administrative expenses | | (8,254) | (11,213) |
| Other expenses | 5 | (154) | (476) |
| Other income and gains – net | 6 | 2,002 | 1,209 |
| Finance income – net | 7 | 27,775 | 23,391 |
| | | 246 | 220 |
| Share of (losses)/profits of associates | | 28,021 | 23,611 |
| | | (114) | 166 |
| Profit before tax | 8 | 27,907 | 23,777 |
| Income tax expense | 9 | (83) | (48) |
| Profit for the year | | 27,824 | 23,729 |
| Attributable to: | | | |
| – Owners of the parent | | 27,833 | 23,782 |
| – Non-controlling interests | | (9) | (53) |
| | | 27,824 | 23,729 |
| Earnings per share attributable to ordinary equity holders of the parent: (expressed in US cent(s) per share) | 10 | | |
| – Basic | | 1.1 | 1.0 |
| – Diluted | | 1.1 | 1.0 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

| | 2022 | 2021 |
|---|-----------------|----------|
| | US\$'000 | US\$'000 |
| Profit for the year | 27,824 | 23,729 |
| Other comprehensive (loss)/income | | |
| Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods: | | |
| – Exchange differences arising on translation of foreign operations | (2,772) | 1,417 |
| 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: | | |
| Changes in fair value | 96 | 136 |
| Other comprehensive (loss)/income for the year | (2,676) | 1,553 |
| Total comprehensive income for the year | 25,148 | 25,282 |
| Attributable to: | | |
| – Owners of the parent | 25,157 | 25,335 |
| – Non-controlling interests | (9) | (53) |
| | 25,148 | 25,282 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

| | Notes | 2022 US\$'000 | 2021 US\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Intangible assets | | – | 505 |
| Property, plant and equipment | | 5,089 | 4,269 |
| Right-of-use assets | | 1,802 | 2,315 |
| Investments in associates | | 968 | 1,082 |
| Equity investment designated at fair value through other comprehensive income | | 1,161 | 1,065 |
| Other receivables, prepayments and deposits | 12 | 3,117 | 9,087 |
| Total non-current assets | | 12,137 | 18,323 |
| CURRENT ASSETS | | | |
| Inventories | | 48,221 | 40,866 |
| Trade and other receivables, prepayments and deposits | 12 | 46,308 | 38,967 |
| Pledged bank deposits | | 6,041 | 17,000 |
| Cash and cash equivalents | | 45,556 | 24,757 |
| Total current assets | | 146,126 | 121,590 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | 45,347 | 50,149 |
| Interest-bearing bank borrowings | | 1,421 | – |
| Lease liabilities | | 1,304 | 1,139 |
| Deferred income | | – | 3 |
| Tax payable | | 315 | 342 |
| Total current liabilities | | 48,387 | 51,633 |
| NET CURRENT ASSETS | | 97,739 | 69,957 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 109,876 | 88,280 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | | – | 181 |
| Lease liabilities | | 692 | 1,392 |
| Total non-current liabilities | | 692 | 1,573 |
| Net assets | | 109,184 | 86,707 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | | 32,149 | 32,123 |
| Reserves | | 77,100 | 54,640 |
| | | 109,249 | 86,763 |
| Non-controlling interests | | (65) | (56) |
| Total equity | | 109,184 | 86,707 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 electronic shelf-labels (ESLs), 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 Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands (with effect from 1 October 2022) and the address of its principal office in Hong Kong is Unit 607-613, 6/F. Wireless Centre, 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.

The consolidated financial statements are presented in US dollars, unless otherwise stated.

2. Basis of preparation

The 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 a financial asset which has been measured at fair value.

3. Changes in accounting policies and disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 3
Amendments to HKAS 16

*Reference to the Conceptual Framework
Property, Plant and Equipment: Proceeds before
Intended Use*

Amendments to HKAS 37
*Annual Improvements to HKFRSs
2018-2020*

Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 1, HKFRS 9, Illustrative
Examples accompanying HKFRS 16, and
HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the “Conceptual Framework”) issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group’s financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

4. Segment information and disaggregation of revenue

During the year, the Group was 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 electronic shelf-labels (ESLs), 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.

Sales amounted to US\$190,843,000 and US\$168,120,000 for the years ended 31 December 2022 and 2021, respectively.

The Company is domiciled in Hong Kong. The Group mainly operates in Hong Kong. During 2022, the Group's products were mainly sold to customers located in Hong Kong, Mainland China, Taiwan, Japan and Europe.

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

| | 2022 US\$'000 | 2021 US\$'000 |
|-----------------|------------------|------------------|
| Hong Kong | 107,126 | 90,819 |
| Mainland China | 8,702 | 15,343 |
| Taiwan | 32,973 | 35,992 |
| Europe | 19,124 | 16,830 |
| Japan | 17,763 | 7,913 |
| Korea | 418 | 765 |
| South East Asia | 650 | 86 |
| USA | 3,376 | 122 |
| Others | 711 | 250 |
| | 190,843 | 168,120 |

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

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

| | 2022 US\$'000 | 2021 US\$'000 |
|-------------------------------------|------------------|------------------|
| New Display ICs | 87,827 | 71,286 |
| OLED Display ICs | 24,778 | 34,737 |
| Mobile Display and Mobile Touch ICs | 66,953 | 43,078 |
| Large Display ICs | 11,285 | 19,019 |
| | 190,843 | 168,120 |

(c) Revenue from contracts with customers that was included in the contract liabilities at the beginning of the reporting period

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period:

| | 2022 US\$'000 | 2021 US\$'000 |
|--|------------------|------------------|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Sales of ICs | 1,480 | 1,391 |

(d) Non-current assets

| | 2022 US\$'000 | 2021 US\$'000 |
|----------------|------------------|------------------|
| Hong Kong | 3,865 | 5,413 |
| Mainland China | 3,983 | 3,349 |
| Taiwan | 1,511 | 1,788 |
| Korea | – | 7 |
| | 9,359 | 10,557 |

Non-current assets are listed based on the locations of assets which exclude financial instruments.

(e) Capital expenditures

| | 2022 US\$'000 | 2021 US\$'000 |
|-------------------------------|------------------|------------------|
| Property, plant and equipment | | |
| Mainland China | 1,907 | 830 |
| Hong Kong | 561 | 616 |
| Taiwan | 64 | 87 |
| | 2,532 | 1,533 |

Capital expenditures are listed based on the locations of assets.

(f) Major customers

For the year ended 31 December 2022, the largest customer was located in Hong Kong, and sales to that customer was US\$71,151,000, over 10% of the Group's total revenue. For the year ended 31 December 2021, the largest customers was located in Hong Kong. Sales to that customer was US\$60,166,000 over 10% of the Group's total revenue.

(g) 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 date of delivery. Some contracts provide customers with volume rebates which give rise to variable consideration subject to constraint.

5. Other expenses

| | 2022 US\$'000 | 2021 US\$'000 |
|--|------------------|------------------|
| Impairment of other receivables and deposits | 92 | 68 |
| Loss from dissolution of subsidiaries | – | 331 |
| Others | 62 | 77 |
| | 154 | 476 |

6. Other income and gains – net

| | 2022 US\$'000 | 2021 US\$'000 |
|--|------------------|------------------|
| Government grants* | 1,898 | 946 |
| Gain on disposal of items of property, plant and equipment | 3 | 3 |
| Gain from dissolution of a subsidiary | 86 | – |
| Reversal of impairment loss of trade receivables | 6 | – |
| Others | 9 | 260 |
| | 2,002 | 1,209 |

* Various government grants have been received for the Group's research and development projects during the year. There are no unfulfilled conditions relating to these grants.

7. Finance income – net

| | 2022 US\$'000 | 2021 US\$'000 |
|-------------------------------|------------------|------------------|
| Interest income | 363 | 278 |
| Interest on bank loans | (36) | (3) |
| Interest on lease liabilities | (81) | (55) |
| | 246 | 220 |

8. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

| | 2022 US\$'000 | 2021 US\$'000 |
|--|------------------|------------------|
| Cost of goods sold | 112,718 | 101,431 |
| Product engineering costs | 9,182 | 7,450 |
| Provision/(reversal of provision) for obsolete or slow moving inventories, net | 12,013 | (1,152) |
| Amortisation of intangible assets | 504 | 517 |
| Depreciation of property, plant and equipment | 1,293 | 1,074 |
| Depreciation of right-of-use assets | 1,355 | 1,251 |
| Lease payments not included in the measurement of lease liabilities | 64 | 226 |
| Impairment of other receivables and deposits* | 92 | 68 |
| Reversal of impairment loss of trade receivables* | (6) | – |
| (Gain)/loss from dissolution of subsidiaries* | (86) | 331 |
| COVID-19-related rent concession from lessor | (76) | (1) |
| Foreign exchange differences, net | (1,366) | 1,200 |
| Auditor's remuneration | 197 | 178 |
| Employee benefit expenses (including directors' emoluments): | | |
| – Salaries, allowances, bonuses and other benefits | 23,997 | 28,633 |
| – Equity-settled share option expense | 496 | 204 |
| – Pension scheme contributions (defined contribution schemes)** | 337 | 386 |
| – Termination benefits | 78 | 91 |
| | 24,908 | 29,314 |

* The balances are included in "other income and gains – net" for gains and "other expenses" for losses in the consolidated statement of profit or loss.

** There are no forfeited contributions that may be used by Group as the employer to reduce the existing level of contributions.

9. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. In the prior year, no provision for Hong Kong profits tax had been made as the Group had no estimated assessable profits. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

| | 2022 US\$'000 | 2021 US\$'000 |
|---|------------------|------------------|
| Current – Hong Kong and Elsewhere: Charge for the year | 83 | 48 |
| Total income tax expense | 83 | 48 |

10. Earnings per share

(a) Basic earnings per share

The basic earnings per share for the year is calculated based on the Group's profit in 2022 attributable to owners of the parent of US\$27,833,000 (2021: US\$23,782,000) and the weighted average number of 2,493,903,036 (2021: 2,488,069,886) ordinary shares in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share is calculated based on the Group's profit for the year attributable to owners of the parent and the weighted average number of ordinary shares in issue during the year 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 | |
|--|------------------|---------------|
| | 2022 | 2021 |
| Weighted average number of ordinary shares in issue | 2,493,903,036 | 2,488,069,886 |
| Effect of dilution – weighted average numbers of ordinary shares: share options | 1,373,259 | 2,754,579 |
| Adjusted weighted average number of ordinary shares for diluted earnings per share calculation | 2,495,276,295 | 2,490,824,465 |

11. Dividends

| | 2022 US\$'000 | 2021 US\$'000 |
|---|------------------|------------------|
| Final dividend attributed to the year: Final dividend, proposed, of Nil (2021: 1.0 HK cent (approximately 0.1 US cent)) per ordinary share | - | 3,216 |

The Board resolved not to declare any final dividend for the year ended 31 December 2022.

At a meeting held on 23 March 2022, the Directors recommended the payment of a final dividend of 1.0 HK cent per ordinary share, totaling HK\$24,924,000 (approximately US\$3,216,000). The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of share premium account for the year ended 31 December 2021.

12. Trade and other receivables, prepayments and deposits

| | 2022 US\$'000 | 2021 US\$'000 |
|---|------------------|------------------|
| Trade receivables | 19,227 | 22,082 |
| Trade receivables from related parties | 4,534 | 2,250 |
| Impairment | (214) | (220) |
| Trade receivables – net | 23,547 | 24,112 |
| Other receivables, prepayments and deposits | 22,700 | 14,690 |
| Prepayments to related parties | 221 | 233 |
| Impairment | (160) | (68) |
| Trade and other receivables, prepayments and deposits – current portion | 46,308 | 38,967 |
| Other receivables, prepayments and deposits – non-current portion | 3,117 | 9,087 |
| | 49,425 | 48,054 |

As at 31 December 2022, the Group's trade receivables from corporate customers were mainly on credit terms of 30 to 90 days. As at 31 December 2022, the ageing analysis of trade receivables based on invoice dates and net of loss allowance, is as follows:

| | 2022 | 2021 |
|--------------|-----------------|----------|
| | US\$'000 | US\$'000 |
| 1–30 days | 11,658 | 9,795 |
| 31–60 days | 3,728 | 6,515 |
| 61–90 days | 2,785 | 5,452 |
| 91–180 days | 4,431 | 2,350 |
| 181–360 days | 945 | – |
| | 23,547 | 24,112 |

13. Trade and other payables

| | 2022 | 2021 |
|---|-----------------|----------|
| | US\$'000 | US\$'000 |
| Trade payables | 15,807 | 23,919 |
| Accrued expenses and other payables | 17,825 | 18,891 |
| Contract liabilities | 6,346 | 6,350 |
| Contract liabilities from a related party | 4,224 | – |
| Refund liabilities | 1,145 | 989 |
| | 45,347 | 50,149 |

Notes:

At 31 December 2022, the ageing analysis of the trade payables based on invoice dates is as follows:

| | 2022 | 2021 |
|--------------|-----------------|----------|
| | US\$'000 | US\$'000 |
| 1 - 30 days | 7,939 | 14,726 |
| 31 - 60 days | 3,422 | 6,478 |
| 61 - 90 days | 4,096 | 2,439 |
| Over 90 days | 350 | 276 |
| | 15,807 | 23,919 |

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Review

In 2022, wafer shortages began to ease in the second half of the year as the global supply chain gradually normalised following the receding of the COVID-19 pandemic and the semiconductor industry entered a de-stocking phase. However, while the supply of raw materials began to normalise, demand fell in the second half of the year after experiencing a strong growth in the first half of the year. The demand for home electronics and portable healthcare products such as personal computers and oximeters, which had grown suddenly due to the pandemic and home isolation needs, began to decline as the pandemic subsided.

In the post-pandemic era, the Group has been proactively adjusting its product portfolio in response to market changes, shifting resources from the development of pandemic-related products to other product categories such as smart home devices as well as industrial appliances, where demand is still favourable.

In response to the increase in raw material prices and production costs, the Group has adjusted the average selling price of its products accordingly. During the year under review, the Group's sales revenue reached US\$190.8 million, representing an increase of 13.5% over 2021 (US\$168.1 million). Shipment volume for the year was approximately 312.9 million units (2021: 395.7 million units).

New Display ICs

New Display IC products mainly refer to bistable display products of the Group. Bistable display is a non-traditional display technology where the display device is illuminated by reflecting ambient light.

During the year under review, New Display IC products showed a slight growth in shipment quantity of 4.7%, mainly brought about by our stable sales arising from ESL in the European and the North American markets. ESL is gaining popularity for its flexibility in price update and easy stock management. For retailers, ESL not only reduces the carbon footprint of merchants, but also increases efficiency and reduces long-term costs, meeting the global trend of paperless for sustainable development.

ESL is not only prevailing in Europe and North America, but it is also becoming an emerging trend in other Asian countries. The Group has been a pioneer in developing ESL ICs for many years, and our customers include many of the world's top-ranked supermarkets. To further tap into the markets of e-Signage and e-Reader applications, we commenced mass production of the AMEPD driver IC for Advanced Colour e-Paper (ACeP) products in 2022. The Group supported E Ink in developing the Display IC Solutions for Spectra™ 3100, a next-generation specialised platform for ESL and retail signage application in 2021. This significant technological break-through that enables a four colour spectrum display has placed us in a leading position in this huge market. Spectra™ 3100 is expected to be launched in 2023. In addition to ESL, the Group is also committed to expanding the application of IC products to other areas, such as translators and large retail signage applications.

OLED Display ICs

The Group offers a wide range of OLED display driver ICs to match with various applications, including PMOLED display products, mini/micro-LED products and OLED lighting products. The Group is the world's number one PMOLED display driver IC player with a dominant market share in terms of unit of shipment in 2022.

The Group provides a full range of PMOLED driver ICs from icon, mono and grey scale to full colour with highly integrated features and are ideal display solutions for portable devices. In the first half of the year under review, the demand for healthcare products related to the COVID-19 pandemic, such as oximeters, was strong as the pandemic was still severe, and gradually slowed down in the second half as the pandemic subsided. With the prevailing trend of smart home appliances, it is expected that demand for PMOLED smart home solutions and the Internet of Things (IoT) will continue to grow in the future.

The Group is a forerunner in the application of mini/micro-LED. Our mini-LED DDI solutions for 50" to 100" indoor signage display have been in mass production since 2018 and are used in the curved signage display in the underground and subways in the UK and the US. As the global high-end consumer electronics market continues to expand, the orders for the Group's mini/micro-LED IC products increased during the year compared to last year. The Group expects to launch the world's first small-sized passive matrix micro-LED display driver IC - SSD2363 in 2023, which can be applied to next-generation high brightness displays of 3 inches or less for wearable devices, home appliances and industrial appliances.

Mobile Display and Mobile Touch ICs

Solomon Systech provides a wide range of Mobile Display and Mobile Touch IC solutions that is ever-expanding, including In-Cell Touch Display Driver IC, TFT Display Driver IC, STN Display Driver IC, MIPI Bridge IC and Display Controller IC, which support industrial and consumer applications spanning smartphones, tablets, wearables, gaming devices and IoT devices.

During the year under review, benefiting from the strong demand for game console controller ICs, the Mobile Display and Mobile Touch ICs products reported a 55.4% increase in sales revenue.

The Group pioneers the MIPI solutions for display with a series of proprietary features that support high-resolution, high-speed and low-power display of smart devices, which includes AR and VR products that have been favored by the market in recent years. In addition, the Group is co-developing a human interface display platform with a leading small-to-medium-sized TFT-LCD panel maker to leverage the Group's pioneering technologies in TDDI, targeting to enter mass production in the second half of 2023.

The demand for game console controller ICs requiring more accurate controls, faster response and longer battery runtime is growing fast. In view of the emerging market trend, the Group leverages its profound expertise in TDDI and has exerted a visionary deployment in the sector. The demand for the Group's game console controller and MIPI Bridge ICs continues to grow, and we have successfully secured manufacturing orders into 2024, making a notable contribution to the Group's sustainable revenue base.

Large Display ICs

The Group provides a wide range of large display driver IC solutions that support various applications, including high-end gaming monitors, notebooks and large-size smart TVs.

During the year under review, the market of large screens was affected by the COVID-19 pandemic, which led to sluggish demand. Panel manufacturers suffered losses against the backdrop of high inventory. However, the Group successfully carried out the mass production of driver ICs for the 165Hz high-refresh-rate gaming monitor of 27/23.8 inches and 43-inch smart HDTV in conjunction with the panel makers and the international terminal brands. In the post-epidemic era, the high-end entertainment market is gradually recovering. In the future, the Group will leverage its R&D capabilities to enhance the value of products and its visibility in the market, and continue to promote its cooperation with domestic display screen factories, while dedicating to the R&D of new generation display technology.

Product Development

The Group stresses the importance of novel product development to keep abreast of the rapid technology advancement and fast-moving trends. By leveraging our technological edge and pool of intellectual properties, we continue to expand our scope of collaboration. This strategy will enable our accelerated presence in the targeted fronts, leading us to the less explored space with promising rewards.

During the year under review, the Group developed the world's first small-sized passive matrix micro-LED display driver IC - SSD2363. The product features high brightness and can be applied to three-inch or less 16.7M colour display according to customers' personalized needs. Moreover, the Group supported E Ink in developing the Display IC Solutions that enables a four colour spectrum display for Spectra™ 3100, a next-generation specialised platform for ESL and retail signage application. These two products are expected to be launched in 2023.

Awards and Recognitions

In 2022, as a recognition of its technological advancement in the industry, the Group was honoured with the "Most Topical Product and Technology" award at EE Awards Asia 2022 for its active-matrix electrophoretic display driver with controller for colour displays, SSD1680.

With outstanding performance in innovation and technology, the Group was selected as the "2022 Benchmark IC Enterprise" by the Nanjing Jiangbei New Area Industrial Technology Research and Innovation Park, and it garnered the "HKSAR 25th Anniversary Enterprise Outstanding Contribution Awards – Innovation and Technology Category" held by Metro Radio. Mr. Raymond Wang, Chief Executive Officer and Executive Director of the Group, was honoured as "Outstanding Semiconductor Entrepreneurs 2022" by Huada Semiconductor.

Outlook

Against the backdrop of global economic austerity and high interest rate, consumer demand has weakened, coupled with the rebound effect caused by the overheating of the electronics industry in the past two years, the consumer electronics market may face the challenge of slowing growth in the short term. It is expected that the semiconductor industry will still be de-stocked in the first half of 2023, and there will be more opportunities for cooperation with downstream to develop products in the second half of the year as the epidemic winds down in the mainland China.

While supply chain problems have been eased with the removal of epidemic travel restrictions, chips are no longer scarce, raw material costs remain under pressure. In the face of gross profit pressure, the Group will strive to control costs, continue to focus on developing technology, improve its product portfolio and endeavor to develop high value-added products.

With the launch of the Group's passive matrix micro-LED display driver IC—SSD2363 this year, we will strengthen the promotion to first-tier customers to increase applications.

Looking ahead, the Group will continue to capitalise on the growing game console controller market, one of our main applications, endeavouring to provide players with a smooth gaming experience through IC. With our capabilities in high-speed and high-resolution display IC technology, we will focus on developing AR and VR products to capture the opportunities of the Metaverse.

Although the market still faces various challenges, the Group will respond swiftly and flexibly as it actively looks for opportunities. We await to ride on the boom as the global economy gradually recovers with our thorough preparation.

FINANCIAL REVIEW

Revenue and Results Overview

For the year ended 31 December 2022, the Group's sales revenue increased to US\$190.8 million (2021: US\$168.1 million), representing an increase of over 13.5% from that of last year. The increase in overall revenue was due to the Group strategic adjustment its product mix in response to the demand of market. As the COVID-19 pandemic seems to show a sign of easing, the demand for handheld medical equipment and healthcare devices slowed down.

Profit attributable to owners of the parent was reported at US\$27.8 million, an increase of over 16.8% from US\$23.8 million in 2021. Earnings per share were 1.1 US cents, up 0.1 US cents from 2021.

Gross profit

Gross profit of US\$65.5 million (2021: US\$67.3 million) and gross margin of 34.3% (2021: 40.0%) were recorded for the year ended 31 December 2022, representing a decrease of 2.7% and 5.7 percentage points as compared with that in the year of 2021, respectively. The decrease in average gross profit margin was mainly attributable to provisions made for slow moving inventories due to reduced market demand for some of the Group's old products.

Costs and Expenses

The Group's total expenses (including product R&D costs, S&D expenses, administrative expenses and other expenses) for the year ended 31 December 2022 amounted to about US\$39.7 million (2021: US\$45.1 million), representing a decrease of 12.0% as compared to that for the year 2021.

The Group is committed to its longer-term development by investing in its R&D capabilities. During the year under review, the product R&D costs amounted to US\$27.1 million (2021: US\$30.4 million) representing a decrease of US\$3.3 million and a decrease of 10.9%. The product R&D costs to sales ratio for the year ended 31 December 2022 was 14.2% (2021: 18.1%), a decrease of 3.9 percentage points. The Group has utilised the resources on the products that more adopt with the global market trend, result in a slight decrease in R&D expenditures. Apart from that, US\$ appreciated against all other major currencies during the year, this driven down the R&D salary costs in the Taiwan and the PRC when translating their salary expenses from local currencies back to USD. Still, the Group has set a bold target in R&D for innovation to solidify its leading position in IC display industry.

Administrative expense amounted to US\$8.3 million (2021: US\$11.2 million), despite the increase in revenue by 13.5% due to foreign exchange gain arose from the appreciation of US\$ against majority of other currencies for the year, as the Group's administration expenses were mainly incurred in the PRC, Hong Kong and Taiwan, the amount has therefore lowered after translating back to US\$.

Other Income and Gains – Net

During the year under review, other income amounted to US\$2.0 million (2021: US\$1.2 million), increased by US\$0.8 million mainly due to increase in government subsidies in 2022. Government subsidies mainly consisted of grants for the product R&D projects totalling US\$1.9 million in 2022 (2021: US\$0.9 million).

Profit Attributable to the Owners of the Parent

During the year under review, the Group reported a profit attributable to owners of the parent of US\$27.8 million, as compared to a profit attributable to owners of the parent for the year ended 31 December 2021 of US\$23.8 million. The steady growth in profit attributable to owners of the parent was due to increase in revenue and a stringent control on overall expenses resulting from the positive contributing factors discussed above.

Liquidity and Financial Resources

| | As at 31 December | |
|---------------------|-------------------|----------|
| | 2022 | 2021 |
| | US\$'000 | US\$'000 |
| Current assets | 146,126 | 121,590 |
| Current liabilities | 48,387 | 51,633 |
| Net current assets | 97,739 | 69,957 |
| Current ratio | 3.02 | 2.35 |

The Group's current ratio was 3.02 as at 31 December 2022 (31 December 2021: 2.35), reflecting a strong liquidity in its financial position. Working capital position of the Group remains strong.

The Group does not have any significant interest-bearing loans and borrowings, and is in net cash position. The Gearing Ratio is 0.013 (2021: 0.002).

Treasury Management

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 meetings or teleconferences with individual external portfolio managers and holds internal review meetings to evaluate and monitor the investment performance.

Total cash and cash equivalents and bank deposits of the Group were US\$51.6 million as at 31 December 2022 (2021: US\$41.8 million), of which US\$6.0 million denominated in US dollars (2021: US\$17.0 million) were pledged to banks to secure for general banking facilities for general operation purpose. Cash and cash equivalents and bank deposits of the Group were mainly denominated in US dollars and Renminbi.

As at 31 December 2022, the Group had no major borrowing other than a bank loan in connection with a PRC subsidiary for working capital financing amounting to US\$1.4 million, which was denominated in Renminbi. The amount was fully repaid before the date of this annual report.

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 had not used any derivative instruments to hedge against foreign currency exposure in operation as the Board considered this exposure to be insignificant.

Capital Expenditure and Contingent Liabilities

During the year of 2022, capital expenditure of the Group was US\$2.5 million (2021: US\$1.5 million).

As at 31 December 2022, capital expenditure contracted for but not yet incurred was approximately US\$0.7 million (2021: US\$1.2 million).

The Company has provided corporate guarantees amounted to US\$12.9 million (2021: US\$17.9 million) to banks in connection with facilities granted to a subsidiary, of which US\$8.0 million (2021: 8 million) were utilised as at 31 December 2022.

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

Significant Investments Held

During the year under review, there was no significant investments held by the Group.

Future Plans for Material Investments and Capital Assets

As at 31 December 2022, the Group did not have any future plans for material investments and capital assets.

Acquisition and Disposal of Material Subsidiaries and Associates

The Group did not acquire or dispose of any material subsidiaries and associates during the year under review.

Charge of Assets

As at 31 December 2022, the Group did not have any charge on its assets except for time deposits amounted to a total of US\$6.0 million (2021: US\$17.0 million) pledged to banks for securing banking facilities.

HUMAN RESOURCES

As of 31 December 2022, the Group had a total workforce of 294 employees. About 36% of the workforce were based at the Hong Kong headquarters, with the rest located in Mainland China and Taiwan. The Group also has a testing center located in Mainland China, with a workforce of 64 employees. Employee salary and other benefit expenses decreased to approximately US\$24.9 million during the year under review from approximately US\$29.3 million in the year 2021, which represented a decrease of 15%. The decrease was because of the decrease in the average number of employees. The Group's remuneration policies are formulated on the performance of individual employees, which will be reviewed every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes for Hong Kong employees) or the government-managed retirement pension scheme (for Mainland China and Taiwan employees), medical and other insurances, discretionary bonus is also awarded to employees according to the assessment of individual performance.

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 2022.

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

For the year ended 31 December 2022, 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 effective for the year ended 31 December 2022 ("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 2022.

AUDIT COMMITTEE

The audit committee alongside with the internal audit team of the Company has reviewed the annual results of the Group for the year ended 31 December 2022.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditors, 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 and consequently no opinion or assurance conclusion has been expressed by Ernst & Young on the preliminary announcement.

FINAL DIVIDEND

The Board of the Company does not recommend the payment of a final dividend.

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 23 March 2023.

DEFINITIONS AND GLOSSARY

| | |
|------------------------|---|
| AMEPD | Active Matrix Electrophoretic Display |
| Augmented Reality (AR) | Augmented reality is an enhanced version of the real physical world that is achieved through the use of digital visual elements, sound, or other sensory stimuli delivered via technology. |
| 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 |
| 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 |
| IP | Intellectual Property |
| LCD | Liquid Crystal Display |
| Listing Rules | The Rules Governing the Listing of Securities on the Stock Exchange |
| Mainland China | The People's Republic of China, for the purpose of this announcement, excludes Hong Kong and Macau Special Administrative Regions of the PRC |
| Metaverse | Metaverse is a digital reality that combines aspects of social media, online gaming, augmented reality (AR), virtual reality (VR), and cryptocurrencies to allow users to interact virtually. |
| 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 |
| R&D | Research and development |
| S&D | Selling and distribution |
| Stock Exchange | The Stock Exchange of Hong Kong Limited |
| TDDI | Touch and Display Driver Integration |
| TFT | Thin Film Transistor |
| UK | United Kingdom |
| USA/U.S. | United States of America |
| US\$/USD | US dollars |
| Virtual Reality (VR) | Virtual Reality is the use of computer technology to create a simulated environment. |

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

Hong Kong, 23 March 2023

As at the date of this announcement, the Board comprises: (a) Executive Director – Mr. Wang Wah Chi, Raymond (Chief Executive Officer); (b) Non-executive Directors – Mr. Ma Yuchuan (Chairman), Mr. Wang Hui and Dr. Kang Jian; and (c) Independent Non-executive Directors – Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Dr. Chan Philip Ching Ho.