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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)

**REVISION OF ANNUAL CAPS
CONTINUING CONNECTED TRANSACTION**

**REVISION OF ANNUAL CAPS IN RESPECT OF THE PRODUCTS SALES
AND DISTRIBUTION TRANSACTIONS**

Reference is made to the 2020 Products Sales and Distribution Announcement and the circular of the Company dated 12 November 2020 in relation to the Existing Products Sales and Distribution Agreement, pursuant to which CEACI has been appointed as one of the non-exclusive authorised distributors of the Group to sell and distribute the Products within the Territory for a term of three years from 1 January 2021 to 31 December 2023.

In view of (i) orders (including acknowledged and unacknowledged) received from CEACI for the delivery of IC Products for the year of 2021 have already accounted for over 80% of the Group's original estimation; (ii) the worldwide increase of demand in IC products since the end of 2020 resulting in a global shortage of supply, there has been a surge of orders for the Group's Products under the Existing Products Sales and Distribution Agreement which exceeded the Group's original projection; and (iii) the increase of average selling price of the Group's Products as a result of the raise of wafer price from the Group's suppliers and the increase in service fees from the Group's subcontractors. Hence, it is expected that the Existing Annual Caps under the Existing Products Sales and Distribution Agreement for the three years ending 31 December 2023 will become insufficient. Accordingly, on 23 March 2021, the Company and CEACI entered into the Supplemental Agreement to revise the Existing Annual Caps to the Revised Caps.

LISTING RULES IMPLICATIONS

As the date of this announcement, CEC, through its wholly-owned subsidiary, Huada, holds indirectly 706,066,000 Shares, representing approximately 28.41% of the existing total number of issued shares of the Company. CEC is a substantial shareholder of the Company. The Company understands that CEACI is an indirect subsidiary of CEC and wholly owns CEACI. Accordingly, CEACI is a connected person of the Company and the transactions under the Existing Products Sales and Distribution Agreement (as supplemented by the Supplemental Agreement) constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54(2) of the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will have to re-comply with the relevant provisions under Chapter 14A of the Listing Rules in relation to the relevant continuing connected transactions. In respect of the Revised Caps under the Existing Products Sales and Distribution Agreement (as supplemented by the Supplemental Agreement), as the highest applicable percentage ratio is not less than 25% and the annual consideration for the Products Sales and Distribution Transactions is more than HK\$10 million, the Supplemental Agreement and the Revised Caps will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. CEC, Huada and its associates will abstain from voting in respect of the resolution(s) to approve the Supplemental Agreement and the Revised Caps at the EGM.

DESPATCH OF CIRCULAR

A circular containing, inter alia, (i) further details of the Supplemental Agreement and the Revised Caps; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Supplemental Agreement and the Revised Caps; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement and the Revised Caps; and (iv) a notice convening the EGM of the Company, will be despatched to the Shareholders on or before 30 April 2021.

BACKGROUND

Reference is made to the 2020 Products Sales and Distribution Announcement and the circular of the Company dated 12 November 2020 in relation to the Existing Products Sales and Distribution Agreement, pursuant to which CEACI has been appointed as one of the non-exclusive authorised distributors of the Group to sell and distribute the Products within the Territory for a term of three years from 1 January 2021 to 31 December 2023.

In view of (i) orders (including acknowledged and unacknowledged) received from CEACI for the delivery of IC Products for the year of 2021 have already accounted for over 80% of the Group's original estimation; (ii) the worldwide increase of demand in IC products since the end of 2020 resulting in a global shortage of supply, there has been a surge of orders for the Group's Products under the Existing Products Sales and Distribution Agreement which exceeded the Group's original projection; and (iii) the increase of average selling price of the Group's products as a result of the raise of wafer price from the Group's suppliers and the increase in service fees from the Group's subcontractors. Hence, it is expected that the annual caps under the Existing Products Sales and Distribution Agreement for the three years ending 31 December 2023 will become insufficient. Accordingly, on 23 March 2021, the Company and CEACI entered into the Supplemental Agreement to revise the Existing Annual Caps to the Revised Caps.

Further information regarding the Supplemental Agreement to the Existing Products Sales and Distribution Agreement is set out below.

REVISION OF ANNUAL CAPS IN RESPECT OF THE PRODUCTS SALES AND DISTRIBUTION TRANSACTIONS

1. Supplemental Agreement and Revised Caps

A summary of salient terms of the Supplemental Agreement is set out below.

Date : 23 March 2021

Parties : (i) the Company; and
(i) CEACI

Pursuant to the Supplemental Agreement, the existing annual caps (the “**Existing Annual Caps**”) for the transactions contemplated under the Existing Products Sales and Distribution Agreement has been revised to the proposed revised caps (the “**Revised Caps**”) as follows:

Financial year

	Existing Annual Caps	Revised Caps (Note)
	US\$'000	US\$'000
For the year ending 31 December 2021	50,000	70,000
For the year ending 31 December 2022	60,000	80,000
For the year ending 31 December 2023	70,000	90,000

Note: The Revised Caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group.

The Supplemental Agreement is subject to the approval by the Independent Shareholders. Save for the said revision of the Existing Annual Caps to the Revised Caps, all other terms of Existing Products Sales and Distribution Agreement shall remain unchanged. Please refer to the 2020 Products Sales and Distribution Announcement and the circular of the Company dated 12 November 2020 for details of the other principal terms of the Existing Products Sales and Distribution Agreement.

2. Reasons for revising the Existing Annual Caps and the basis for determining the Revised Caps

The Group specialises in the design, development and sales of IC products that enable a wide range of display applications for consumer electronics products, in particular healthcare products, smartphones, smart TVs, monitors and other smart devices, and has engaged CEACI, an established professional technology distributor, as one of its non-exclusive authorized distributors to sell and distribute the Products within the Territory for many years.

Pursuant to the Existing Products Sales and Distribution Agreement, the Existing Annual Caps for the Products Sales and Distribution Transactions for each of the three years ending 31 December 2023 were US\$50 million, US\$60 million and US\$70 million, respectively. In view of the increase of demand in IC products since the end of 2020 resulting in a global shortage of supply, there has been a surge of orders for the Group's Products under the CEACI Agreement which exceeded the original projection. The orders (including acknowledged and unacknowledged) from CEACI for the delivery of IC Products for the year 2021 pursuant to the Existing Products Sales and Distribution Agreement as at 28 February 2021 already accounted for 80% of the Group's original estimation for the year ending 31 December 2021.

Against the above background, the Company and CEACI entered into the Supplemental Agreement to revise the relevant annual caps. The Revised Caps for the three years ending 31 December 2023 as provided for in the Existing Products Sales and Distribution Agreement (as supplemented by the Supplemental Agreement) were determined with reference to:

- (i) that fact that over 80% of orders (including acknowledged and unacknowledged) have been received from CEACI;
- (ii) the expectation that the orders received by the Group for the Products will continue to maintain positive, with a higher growth rate than the Group's original forecast, as demonstrated by the recent surge of orders for the Group's Products under the CEACI Agreement as mentioned above;
- (iii) the better-than-normal seasonal demand is expected to occur in the first half of 2021 with the clients placing extra orders due to recent capacity constraints for IC products, as compared with the typical slow season for the industry in the first half of the year; and
- (iv) in light of an increase in the Group's material cost and production cost, it is expected that the average selling price of its different IC products may further increase with reference to their respective production costs and market price in order to compensate part of its margin, which in turn is expected to lead to the increase in total revenue amount.

In light of the above, the Directors (excluding the independent non-executive Directors who will provide their views after considering the advice of the Independent Financial Adviser) consider that it is in the interests of the Group to enter into the Supplemental Agreement to the Existing Products Sales and Distribution Agreement and revise the Existing Annual Caps to the Revised Caps, the Supplemental Agreement was entered into in the ordinary and usual course of business of the Group, and that the terms of the Existing Products Sales and Distribution Agreement (as supplemented by the Supplemental Agreement) and the Revised Caps were determined after arm's length negotiations between CEACI and the Company, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors have approved the Supplemental Agreement at the meeting of the Board on 23 March 2021, Mr. Ma Yuchuan, Dr. Li Jun and Mr. Yu Juan who are officers of the CEC group have abstained from voting on the relevant resolution of the Board at such meeting. Save as disclosed above, none of the Directors has any material interest in the transactions under the Supplemental Agreement and has to abstain from voting for the reason of having a material interest in such transactions.

INFORMATION ON THE GROUP

The Group is principally engaged 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.

INFORMATION OF THE CONNECTED PERSONS

CECI and its wholly-owned subsidiary CEACI have more than 30 years' experience as professional technology distributors and in providing technology services. CECI/CEACI is a distributor for many categories of products, including but not limited to smart TVs, power electronics, smart touch, security monitoring, wireless and internet, automobile electronics, communication systems, consumer electronic products, industrial control and power management. CEACI is one of the indirect subsidiaries of the CEC group and is a wholly-owned subsidiary of CECI, which is, in turn, insofar as the Board is aware, held:

- (i) as to approximately 41.79% by 中國中電國際信息服務有限公司(China Electronics International Information Service Company Limited**), a wholly-owned subsidiary of CEC;
- (ii) as to approximately 14.18% by 國家集成電路產業投資基金股份有限公司 (China Integrated Circuit Industry Investment Fund Co., Ltd.**), which is a joint-stock corporate fund launched collectively by a number of institutions, mainly including the Ministry of Finance of the PRC, China Development Bank Capital Corporation Ltd, State Tobacco Monopoly Administration and Beijing E-Town International Investment & Development Co., Ltd., which are state-owned enterprises or PRC government institutions;
- (iii) as to approximately 9.58% by 中電創新基金(有限合夥) (CEC Innovation Fund (LP)**), which is a limited partnership held by certain entities including CEC as to 59.90% and 全國社會保障基金理事會 (the National Council for Social Security Fund) as to 40% of the partnership interest;
- (iv) as to approximately 9.45% by 中電坤潤一期(天津)股權投資合夥企業(有限合夥) (CEC Kunrun I (Tianjin) Equity Investment Partnership (LP)**), which is a limited partnership held by certain entities including 雲南工投產業股權投資基金合夥企業(有限合夥) (Yunnan Industrial Assets Investment Fund Partnership (LP)**), an investment fund in turn ultimately held by a state-owned enterprise, as to 99.5% of the partnership interest;
- (v) as to approximately 9.45% by 中國國有資本風險投資基金股份有限公司 (China Venture Capital Fund Corporation Ltd.**), which is in turn a state level investment fund established by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC;
- (vi) as to approximately 9.06% by 共青城億科合融投資管理合夥企業(有限合夥) (Gongqingcheng Yike Herong Investment Management Partnership (LP)**), which is a limited partnership held by three investment funds as to approximately 63.04%, and by thirty individuals and one corporation as to approximately 36.96% in aggregate (and each such individual or corporation holds less than 5% of the partnership interest in the limited partnership);
- (vii) as to approximately 4.8% by 大聯大商貿有限公司 (Dalianda Trading Co., Ltd.**), which is an indirect wholly-owned subsidiary of WPG Holdings Limited, a company whose shares are listed on the Taiwan Stock Exchange; and
- (viii) as to approximately 1.69% by 深圳前海同沁同立創新投資企業(有限合夥) (Shenzhen Qianhai Tongqin Tongli Innovation Investment Enterprise (LP)**), which is a limited partnership held by an investment fund as to approximately 25% and nine individuals as to 72.5% in aggregate (and each such individual holds less than 20% of the partnership interest in the limited partnership).

CEC is a state-owned company whose ultimate beneficial owner is the State Council of the PRC. CEC is a nationwide electronics and information technology conglomerate directly administered by the PRC government and focuses on communications, consumer electronics products, semi-conductor and software sectors in the PRC.

LISTING RULES IMPLICATIONS

As the date of this announcement, CEC, through its wholly-owned subsidiary, Huada, holds indirectly 706,066,000 Shares, representing approximately 28.41% of the existing total number of issued shares of the Company. CEC is a substantial shareholder of the Company. The Company understands that CEACI is an indirect subsidiary of CEC and wholly owns CEACI. Accordingly, CEACI is a connected person of the Company and the transactions under the Existing Products Sales and Distribution Agreement (as supplemented by the Supplemental Agreement) constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54(2) of the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will have to re-comply with the relevant provisions under Chapter 14A of the Listing Rules in relation to the relevant continuing connected transactions. In respect of the Revised Caps under the Existing Products Sales and Distribution Agreement (as supplemented by the Supplemental Agreement), as the highest applicable percentage ratio is not less than 25% and the annual consideration for the Products Sales and Distribution Transactions is more than HK\$10 million, the Supplemental Agreement and the Revised Caps will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. CEC, Huada and its associates will abstain from voting in respect of the resolution(s) to approve the Supplemental Agreement and the Revised Caps at the EGM.

GENERAL

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the transactions under the Supplemental Agreement. Gram Capital has been appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders on the transactions under the Supplemental Agreement and the Revised Caps.

DESPATCH OF CIRCULAR

A circular containing, inter alia, (i) further details of the Supplemental Agreement and the Revised Caps; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Supplemental Agreement and the Revised Caps; (iii) a letter of advice from the Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement and the Revised Caps; and (iv) a notice convening the EGM of the Company will be despatched to the Shareholders. As additional time is required to prepare the relevant information to be included in the circular, it is expected that the circular will be despatched to the Shareholders on or before 30 April 2021.

DEFINITIONS

"2020 Products Sales and Distribution Announcement"	the Company's announcement dated 22 October 2020, which disclosed, among others, the entering of the Existing Products Sales and Distribution Agreement and the terms and conditions of the transactions contemplated under the Existing Products Sales and Distribution Agreement which constituted continuing connected transactions for the Company under the Listing Rules;
"associates"	has the same meaning as ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"CEACI"	CEAC International Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CEACI, and a connected person of the Company;

“CEC”	中國電子信息產業集團有限公司 (China Electronics Corporation**), a state-owned information technology conglomerate under the administration of the central government of the PRC, an indirect substantial shareholder through its interests in Huada, and a connected person of the Company;
“CECI”	深圳中電國際信息科技有限公司 (CECI Technology Co., Ltd.**), a company established in the PRC and an indirect subsidiary of the CEC, and a connected person of the Company;
“Company”	Solomon Systech (International) Limited, a company incorporated in Cayman Islands with limited liability and whose shares are listed and traded on the main board of the Stock Exchange. Shares of the Company are ordinary shares of HK\$0.10 each in the share capital of the Company;
“connected persons”	has the same meaning as ascribed to it under the Listing Rules;
“Director(s)”	director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened for, inter alia, the approval of the Supplemental Agreement and the Revised Caps;
“Existing Annual Caps”	has the meaning as ascribed to it under the section headed “Revision of Annual Caps in respect of the Products Sales and Distribution Transactions – 1. Supplemental Agreement and Revised Caps” in this announcement
“Existing Products Sales and Distribution Agreement”	the agreement dated 22 October 2020 entered into between the Company and CEACI governing the terms and conditions for the appointment of CEACI as one of the non-exclusive authorized distributors of the Company to sell and distribute within the Territory for the three years ending 31 December 2023, details of which are set out in the announcement of the Company dated 22 October 2020;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Huada”	華大半導體有限公司 (Huada Semiconductor Co. Ltd.**), a company established in the PRC to consolidate all IC businesses under CEC group, a substantial shareholder, and a connected person of the Company;
“IC”	integrated circuits;
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Dr. Chan Philip Ching Ho;

“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Supplemental Agreement and the Revised Caps;
“Independent Shareholders”	Shareholders other than CEC and its associates;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Products Sales and Distribution Transactions”	the transactions as contemplated under the Existing Products Sales and Distribution Agreement in relation to the sales and distribution of the Products of the Group within the Territory;
“PRC”	the People’s Republic of China;
“Products”	IC and driver products of the Group;
“Revised Caps”	has the meaning as ascribed to it under the section headed “Revision of Annual Caps in respect of the Products Sales and Distribution Transactions – 1. Supplemental Agreement and Revised Caps” in this announcement
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the share(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder(s)”	has the same meaning as ascribed to it under the Listing Rules;
“Supplemental Agreement”	the supplemental agreement to the Existing Products Sales and Distribution Agreement entered into between the Company and CEACI on 23 March 2021;
“Territory”	Mainland China and Hong Kong;
“US\$”	the United States Dollars, the lawful currency of the United States of America; and
“%”	per cent.

By Order of the Board
SOLOMON SYSTECH (INTERNATIONAL) LIMITED
Wang Wah Chi, Raymond
Chief Executive Officer

Hong Kong, 23 March 2021

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), Dr. Li Jun, Mr. Yu Jian and Mr. Lo Wai Ming; and (c) Independent Non-executive Directors – Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Dr. Chan Philip Ching Ho.