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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Solomon Systech (International) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other registered dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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 AND NOTICE OF EXTRAORDINARY GENERAL MEETING**

*Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders*



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A letter from the Board is set out on pages 6 to 14 of this circular and a letter from the Independent Board Committee is set out on page 15 of this circular.

A letter from Sorrento Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 24 of this circular.

A notice convening an EGM of Solomon Systech (International) Limited to be held at 3:00 p.m. on Wednesday, 22 June 2022 (or immediately after the conclusion of the annual general meeting of the shareholders of the Company to be held on the same date) at Unit 607-613, 6/F, Wireless Centre, No. 3 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong is set out on pages 29 to 30 of this circular. In the event you are not able to attend the EGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time (i.e. by Monday, 20 June 2022 at 3:00 p.m.) appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish.

#### **PRECAUTIONARY MEASURES FOR THE EGM**

Please refer to page 1 of this circular for the measures being taken to prevent and control the spread of the COVID-19 at the EGM, including but not limited to:

- (a) compulsory body temperature check;
- (b) compulsory wearing of surgical face mask;
- (c) maintaining a safe distance between seats; and
- (d) no provision of refreshments and beverages.

Any person who does not comply with the precautionary measures will be denied entry into or be required to leave the EGM venue. In light of the continuing risks posed by the COVID-19 and as part of the Company's control measures to safeguard the health and safety of the Shareholders, the Company strongly encourages the Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

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## PRECAUTIONARY MEASURES FOR THE EGM

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The health of the Shareholders, staff and stakeholders of the Company is of paramount importance to us. To prevent and control the spread of the COVID-19, the Company will implement the following at the EGM as part of the control measures to safeguard the health and safety of our attending Shareholders, staff and stakeholders of the Company:

- (i) compulsory body temperature checks will be conducted for every attendee at the entrance of the EGM venue. Any person who has a body temperature of over 37.5 degree Celsius or is subject to the mandatory quarantine order imposed by the Hong Kong government will be denied entry into or be required to leave the EGM venue;
- (ii) each attendee must wear a surgical facemask throughout the EGM and inside the EGM venue. Please note that no masks will be provided at the EGM venue and attendees should bring and wear their own masks;
- (iii) the Company will maintain a safe distance between seats; and
- (iv) no refreshments and beverages will be served.

In addition, the Company would like to remind all attending Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. The Company strongly encourages the Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return the proxy forms to the Company's branch share registrar and transfer agent in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.

In the event of any regulation imposed by the Hong Kong government due to COVID-19 requiring a change of the date or place of the EGM, the Company will publish an announcement on the websites of both the Company ([www.solomon-systech.com](http://www.solomon-systech.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) to notify the Shareholders of the revised arrangements or an adjournment of the EGM.

The Company will publish a further announcement on its corporate website ([www.solomon-systech.com](http://www.solomon-systech.com)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) to notify the Shareholders of the date, time and location of the adjourned meeting (if applicable).

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## DEFINITIONS

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*In this circular, unless the context requires otherwise, the following expressions have the following meanings:*

“2020 Products Sales and Distribution Announcement”	the Company’s announcement dated 22 October 2020, which disclosed, among others, the entering into 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
“2021 Products Sales and Distribution Announcement”	the Company’s announcement dated 23 March 2021, which disclosed, among others, the entering into of the First Supplemental Agreement pursuant to which the annual caps in respect of the Products Sales and Distribution Transactions were revised
“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 CECP, 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 <sup>#</sup> ), 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
“CECP”	深圳中電港技術股份有限公司 (Shenzhen CECport Technologies Co., Ltd. <sup>#</sup> ) (formerly known as 深圳中電國際信息科技有限公司 (CECI Technology Co., Ltd. <sup>#</sup> )), 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 the 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

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be convened at 3:00 p.m. or immediately after the conclusion of the annual general meeting of the shareholders of the Company to be held on the same date on Wednesday, 22 June 2022 at Unit 607-613, 6/F Wireless Centre, No. 3 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong or any adjournment thereof, for, inter alia, the approval of the Second Supplemental Agreement and the Revised Caps
“Existing Annual Caps”	has the meaning as ascribed to it under the section headed “II. Revision of Annual Caps in respect of the Products Sales and Distribution Transactions – 1. Second Supplemental Agreement and Revised Caps” in the letter from the Board contained in this circular
“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 authorised 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 2020 Products Sales and Distribution Announcement
“First Supplemental Agreement”	the supplemental agreement to the Existing Products Sales and Distribution Agreement entered into between the Company and CEACI on 23 March 2021
“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

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## DEFINITIONS

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“Independent Financial Adviser” or “Sorrento Capital”	Sorrento 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 Existing Products Sales and Distribution Agreement as amended by the Supplemental Agreements and the Revised Caps
“Independent Shareholders”	Shareholders other than CEC and its associates
“Latest Practicable Date”	31 May 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers
“Products Sales and Distribution Transactions”	the transactions as contemplated (as amended by the First Supplemental Agreement) 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 “II. Revision of Annual Caps in respect of the Products Sales and Distribution Transactions – 1. Second Supplemental Agreement and Revised Caps” in the letter from the Board contained in this circular
“Second Supplemental Agreement”	the second supplemental agreement to the Existing Products Sales and Distribution Agreement entered into between the Company and CEACI on 6 May 2022
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“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 Agreements”	the First Supplemental Agreement and the Second Supplemental Agreement
“Territory”	PRC and Hong Kong
“US\$”	the United States Dollars, the lawful currency of the United States of America
“%”	per cent

# *For identification purposes only*

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LETTER FROM THE BOARD

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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)**

*Directors:*

Ma Yuchuan\* (*Chairman*)

Wang Wah Chi, Raymond (*Chief Executive Officer*)

Wang Hui\*

Kang Jian\*

Leung Heung Ying\*\*

Sheu Wei Fu\*\*

Chan Philip Ching Ho\*\*

*Registered office:*

2nd Floor

Century Yard

Cricket Square

P.O. Box 902

Grand Cayman

KY1-1103

Cayman Islands

\* *Non-executive Director*

\*\* *Independent Non-executive Director*

*Principal place of business*

*in Hong Kong:*

Unit 607-613, 6/F Wireless Centre,

No.3, Science Park East Avenue

Hong Kong Science Park

Shatin, New Territories

Hong Kong

7 June 2022

*To the Shareholders*

Dear Sir or Madam,

**REVISION OF ANNUAL CAPS  
CONTINUING CONNECTED TRANSACTION  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**I. INTRODUCTION**

Reference is made to (i) 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

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## LETTER FROM THE BOARD

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term of three years from 1 January 2021 to 31 December 2023; (ii) the 2021 Products Sales and Distribution Announcement and the circular of the Company dated 21 April 2021 in respect of the First Supplemental Agreement pursuant to which the annual caps in respect of the Products Sales and Distribution Transactions were revised; and (iii) the announcement of the Company dated 6 May 2022 in respect of the Second Supplemental Agreement.

On 6 May 2022, the Company and CEACI entered into the Second Supplemental Agreement to revise the Existing Annual Caps to the Revised Caps as it is expected that the Existing Annual Caps under the Existing Products Sales and Distribution Agreement (as amended by the First Supplemental Agreement) for the two years ending 31 December 2023 will become insufficient. Save for the revision of the Existing Annual Caps to the Revised Caps, all other terms of Existing Products Sales and Distribution Agreement (as amended by the First Supplemental Agreement) shall remain unchanged.

The purpose of this circular is to give the Shareholders the notice of EGM and to provide the Shareholders with further information in respect of the Second Supplemental Agreement and the Revised Caps.

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

In view of (i) orders (including acknowledged and unacknowledged) received from CEACI for the delivery of Products by mid-2022 have already accounted for over 65% of the Group's original estimation for the whole year of 2022; (ii) the worldwide increase of demand in IC products since 2021 resulting in a global shortage of supply, there has been a continual surge of orders for the Group's Products under the Existing Products Sales and Distribution Agreement (as amended by the First Supplemental Agreement) which exceeded the Group's original projection; and (iii) the continual increase of average selling price of the Group's Products as a result of the raise of wafer price from our suppliers and the increase in service fees from the Group's subcontractors, it is expected that the Existing Annual Caps under the Existing Products Sales and Distribution Agreement (as amended by the First Supplemental Agreement) for the two years ending 31 December 2023 will become insufficient. Accordingly, on 6 May 2022, the Company and CEACI entered into the Second Supplemental Agreement to revise the Existing Annual Caps to the Revised Caps.

#### **1. Second Supplemental Agreement and Revised Caps**

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

Date : 6 May 2022

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

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## LETTER FROM THE BOARD

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Pursuant to the Second Supplemental Agreement, the existing annual caps (the “**Existing Annual Caps**”) for the transactions contemplated under the Existing Products Sales and Distribution Agreement (as amended by the First Supplemental Agreement) for each of the year ending 31 December 2022 and 31 December 2023 have been revised to the proposed revised caps (the “**Revised Caps**”) as follows:

<b>Financial year</b>	<b>Existing Annual Caps</b> <i>US\$'000</i>	<b>Revised Caps</b> <i>(Note)</i> <i>US\$'000</i>
For the year ending 31 December 2022	80,000	135,000
For the year ending 31 December 2023	90,000	150,000

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

The Second Supplemental Agreement and the Revised Caps are 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 (as amended by the First Supplemental Agreement) shall remain unchanged.

Please refer to (i) the 2020 Products Sales and Distribution Announcement and the circular of the Company dated 12 November 2020, and (ii) the 2021 Products Sales and Distribution Announcement and the circular of the Company dated 21 April 2021, for details of the other principal terms of the Existing Products Sales and Distribution Agreement and the First Supplemental Agreement.

### **2. Reasons for and benefits 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 authorised distributors to sell and distribute the Products within the Territory for many years.

Pursuant to the Existing Products Sales and Distribution Agreement (as amended by the First Supplemental Agreement), the Existing Annual Caps for the Products Sales and Distribution Transactions for each of the two years ending 31 December 2023 were US\$80 million and US\$90 million, respectively. In view of the continual worldwide demand in IC products since 2021 resulting in a global shortage of supply, there has been a continual surge of orders for the Group’s Products under the Existing Products Sales and Distribution Agreement which exceeded the Group’s original projection. Further, there has been a continual increase of average selling price of the Group’s Products as a result of the raise of

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## LETTER FROM THE BOARD

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wafer price from the Group's suppliers and the increase in service fees from the Group's subcontractors. Due to the aforementioned, by the end of March 2022, the orders (including acknowledged and unacknowledged) received from CEACI for the delivery of Products by mid-2022 have already amounted to approximately US\$52 million, which accounted for approximately 65% of the Group's original estimation for the whole year of 2022.

Against the above background, the Company and CEACI entered into the Second Supplemental Agreement to revise the relevant annual caps. The Revised Caps for each of the two years ending 31 December 2023 were determined with reference to:

- (i) the actual transaction amount for the year ended 31 December 2021 under the Existing Products Sales and Distribution Agreement (as amended by the First Supplemental Agreement) was approximately US\$60.2 million, representing a utilisation rate of approximately 86% of the annual cap for the year ended 31 December 2021, and a substantive increase of over 2.1 times from the actual transaction amount of the sale of Products to CEACI of US\$19.4 million for the year ended 31 December 2020;
- (ii) the fact that by the end of March 2022, the orders (including acknowledged and unacknowledged) received from CEACI for the delivery of Products by mid-2022 have already amounted to approximately US\$52 million which accounted for approximately 65% of the Group's original estimation for the whole year of 2022;
- (iii) the fact that for the first quarter of 2022, the Group's revenue generated under the Existing Products Sales and Distribution Agreement (as amended by the First Supplemental Agreement) increased by over 90% as compared with that for the corresponding period in 2021, and hence the expectation that the orders received by the Group for the Products will continue to increase with a substantially higher growth rate than the Group's original forecast of approximately 14% from 2021 to 2022 when determining the Existing Caps, as demonstrated by the continual surge of orders for the Group's Products under the Existing Products Sales and Distribution Agreement as mentioned above; and
- (iv) the fact that there has been an unexpected surge in the Group's material and production cost, as illustrated by the fact that the Group's average purchase price of wafer, being a major material of its Products, having been increased by approximately 61% for the first quarter of 2022 as compared with that for the corresponding period in 2021. In light of such an increase in the Group's material cost and production cost, the Group has generally raised the average selling price of its different IC products which 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 transaction amount.

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## LETTER FROM THE BOARD

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In light of the above, the Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) consider that it is in the interests of the Group to enter into the Second Supplemental Agreement to the Existing Products Sales and Distribution Agreement and revise the Existing Annual Caps to the Revised Caps, the Second 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 amended by the Supplemental Agreements) and the Revised Caps were determined after arm's length negotiations between CEACI and the Company and are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors have approved the Second Supplemental Agreement at the meeting of the Board on 6 May 2022, Mr. Ma Yuchuan, Mr. Wang Hui and Dr. Kang Jian 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 Second Supplemental Agreement and has to abstain from voting for the reason of having a material interest in such transactions.

### **3. 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 wearables, electronic shelf-labels (ESLs), healthcare devices, smart home devices, as well as industrial appliances.

### **4. Information on the connected persons**

CECP and its wholly-owned subsidiary CEACI have more than 30 years' experience as professional technology distributors and in providing technology services. CECP/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 CECP, 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<sup>#</sup>), a wholly-owned subsidiary of 中國電子有限公司 (China Electronics Co., Ltd<sup>#</sup>) which is in turn controlled by 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.<sup>#</sup>), 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, China National Tobacco Corporation and Beijing E-Town International Investment & Development Co., Ltd., which are state-owned enterprises or PRC government institutions;

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## LETTER FROM THE BOARD

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- (iii) 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 99.09% of the partnership interest;
- (iv) 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 State-owned Venture Capital Fund Corporation Ltd.#), which is in turn an investment fund established by China Reform Holdings Corporation Ltd., a corporation under the State-owned Assets Supervision and Administration Commission of the State Council of the PRC;
- (v) 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 59.29%, and by twenty-nine individuals and one corporation as to approximately 40.71% in aggregate (and each such individual or corporation holds less than 5% of the partnership interest in the limited partnership);
- (vi) as to approximately 5.74% by CEC;
- (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;
- (viii) as to approximately 3.84% by 北京中電發展股權投資基金合夥企業(有限合夥) (Beijing Zhongdian Development Equity Investment Fund Partnership (LP)#) which is a limited partnership held by Chongqing Construction Investment (Group) Co., Ltd., a corporation under the State-owned Assets Supervision and Administration Commission of Chongqing, as to approximately 38.79%, and Guotai Junan Zhengyu Investment Co., Ltd., a wholly owned subsidiary of Guotai Junan Securities Co., Ltd. as to approximately 24.24%; and
- (ix) 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 certain 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.

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## LETTER FROM THE BOARD

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### 5. Listing Rules implications

As at the Latest Practicable Date, CEC, through its wholly-owned subsidiary, Huada, holds indirectly 706,066,000 Shares, representing approximately 28.31% of the existing total number of issued shares of the Company. CEC is a substantial shareholder of the Company. The Company understands that CECP 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 amended by the Supplemental Agreements) 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 requirements 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 amended by the Supplemental Agreements), as the highest applicable percentage ratio is not less than 25% and the expected annual consideration for the Products Sales and Distribution Transactions contemplated thereunder is more than HK\$10 million, the Second Supplemental Agreement and the Revised Caps are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. CEC, Huada and their respective associates will abstain from voting in respect of the resolution(s) to approve the Second Supplemental Agreement, the transactions contemplated thereunder, and the Revised Caps at the EGM.

### 6. General

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the transactions under the Second Supplemental Agreement and the Revised Caps. Sorrento Capital has been appointed as the Independent Financial Adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders on the transactions under the Second Supplemental Agreement and the Revised Caps. The views of the Independent Board Committee on the Second Supplemental Agreement, the transactions contemplated thereunder, and the Revised Caps after considering the advice from Sorrento Capital are set out in the Letter from the Independent Board Committee on page 15 of this circular.

## III. EGM AND PROXY ARRANGEMENT

The notice of the EGM is set out on pages 29 to 30 of this circular. At the EGM, resolutions will be proposed to approve the Second Supplemental Agreement, the transactions contemplated thereunder and the Revised Caps.

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## LETTER FROM THE BOARD

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CEC, Huada and their respective associates will be required to abstain from voting at the EGM on the resolution to be proposed in relation to the Second Supplemental Agreement, the transactions contemplated thereunder and the Revised Caps. To the best knowledge of the Company, as at the Latest Practicable Date, CEC, through its subsidiary Huada, was interested in 706,066,000 Shares, representing approximately 28.31% of the total issued share capital of the Company. Save as disclosed in this circular, no other shareholder has any material interest in the Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements) and the transactions contemplated thereunder and will be required to abstain from voting at the EGM on the resolution in respect of the same.

Pursuant to the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll. An announcement on the poll results will be published on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.solomon-systech.com](http://www.solomon-systech.com)) after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.solomon-systech.com](http://www.solomon-systech.com)). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority, at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof should you so wish.

#### **IV. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

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## LETTER FROM THE BOARD

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### V. RECOMMENDATIONS

Having considered the reasons set out herein, the Directors, including the independent non-executive Directors (having considered the advice of Sorrento Capital), are of the opinion that it is in the interests of the Group to enter into the Second Supplemental Agreement to the Existing Products Sales and Distribution Agreement and revise the Existing Annual Caps to the Revised Caps, the Second 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 amended by the Supplemental Agreements) and the Revised Caps were determined after arm's length negotiations between CEACI and the Company, are fair and reasonable and in the interests of the Company and the Shareholders as a whole and are on normal commercial terms (or better to the Group). Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution regarding the Second Supplemental Agreement and the Revised Caps to be proposed at the EGM.

### VI. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the Appendix (General Information) on pages 25 to 28 of this circular.

Yours faithfully,  
For and on behalf of  
**SOLOMON SYSTECH (INTERNATIONAL) LIMITED**  
**WANG Wah Chi, Raymond**  
*Chief Executive Officer*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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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)**

7 June 2022

*To the Independent Shareholders*

Dear Sir or Madam,

**REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTION**

We have been appointed as members of the Independent Board Committee to advise you in connection with the Second Supplemental Agreement, the transactions contemplated thereunder and the Revised Caps, details of which are set out in the letter from the Board contained in the circular dated 7 June 2022 issued by the Company to the Shareholders (the “Circular”), of which this letter forms a part.

As at the Latest Practicable Date, we were not aware of any relationships or interests between the Company and the Independent Financial Adviser or any other parties that could be reasonably regarded as hindrance to the Independent Financial Adviser’s independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Second Supplemental Agreement and the Revised Caps.

Unless specified otherwise, the capitalised terms used herein shall have the same meanings as those defined in the Circular.

Having considered the advice of Sorrento Capital and the principal factors and reasons taken into consideration by it in arriving at its advice as set out on pages 16 to 24 of the Circular, we are of the opinion that the terms of Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements), the transactions contemplated thereunder and the Revised Caps are on normal commercial terms and are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to approve the Second Supplemental Agreement, the transactions contemplated thereunder and the Revised Caps to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Leung Heung Ying**  
*Independent*  
*non-executive Director*

**Sheu Wei Fu**  
*Independent*  
*non-executive Director*

**Chan Philip Ching Ho**  
*Independent*  
*non-executive Director*

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## LETTER FROM SORRENTO CAPITAL

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*The following is the text of the letter of advice from Sorrento Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in relation to the transactions contemplated under the Existing Products Sales and Distribution Agreement as amended by the Supplemental Agreements and the Revised Caps for the purpose of inclusion in the Circular.*



11/F,  
The Wellington,  
198 Wellington Street,  
Central,  
Hong Kong

7 June 2022

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### REVISION OF ANNUAL CAPS CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the sales and distribution of IC and driver products of the Group (the “**Products**”) within the Territory (i.e. the PRC and Hong Kong) (the “**Products Sales and Distribution Transactions**”) pursuant to the Existing Products Sales and Distribution Agreement as amended by the Supplemental Agreements between the Company and CEAC International Limited (“**CEACI**”) and the revised annual caps (the “**Revised Caps**”) for the two financial years ending 31 December 2023, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 7 June 2022 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Existing Products Sales and Distribution Agreement dated 22 October 2020 was entered into between the Company and CEACI to govern the terms and conditions for the appointment of CEACI as one of the non-exclusive authorised distributors of the Company to sell and distribute within the Territory for the three years ending 31 December 2023. Due to the expected increase in sales of the Products, the annual caps of the Products Sales and Distribution Transactions were revised to the Existing Annual Caps of US\$80 million and US\$90 million for each of the two financial years ending 31 December 2023 pursuant to the First Supplemental Agreement dated 23 March 2021 with the approval of the then Independent Shareholders.

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## LETTER FROM SORRENTO CAPITAL

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According to the Letter from the Board, as the Existing Annual Caps are expected to become insufficient, the Company and CEACI entered into the Second Supplemental Agreement dated 6 May 2022 pursuant to which the Existing Annual Caps would be increased to the Revised Caps of US\$135 million and US\$150 million for each of the two financial years ending 31 December 2023 subject to the approval of the Independent Shareholders at the EGM.

According to the Letter from the Board, CEACI is wholly-owned by 深圳中電港技術股份有限公司 (transliterated as Shenzhen CECport Technologies Co., Ltd. for identification purpose, “**CECP**”) which is in turn owned as to approximately 41.79% by 中國中電國際信息服務有限公司 (transliterated as China Electronics International Information Service Company Limited for identification purpose), a subsidiary of 中國電子信息產業集團有限公司 (transliterated as China Electronics Corporation for identification purpose, “**CEC**”). As at the Latest Practicable Date, CEC is indirectly interested in approximately 28.31% of the existing issued shares of the Company through its wholly-owned subsidiary 華大半導體有限公司 (transliterated as Huada Semiconductor Co. Ltd. For identification purpose, “**Huada**”). Therefore CEC is a substantial shareholder of the Company and the Products Sales and Distribution Transactions and the entering into of the Second Supplemental Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio is not less than 25% and the expected annual consideration for the Products Sales and Distribution Transactions contemplated thereunder is more than HK\$10 million, the Second Supplemental Agreement and the Revised Caps are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements pursuant to Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Dr. Chan Philip Ching Ho, all being the independent non-executive Directors, has been established by the Board to consider the terms of the Second Supplemental Agreement (including the Revised Caps) and to make recommendation to the Independent Shareholders as regards voting. We, Sorrento Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the transactions contemplated under the Existing Products Sales and Distribution Agreement as amended by the Supplemental Agreements (including the Revised Caps) are normal commercial and fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Since Mr. Ma Yuchuan, Mr. Wang Hui and Dr. Kang Jian are officers of the CEC group, they have abstained from voting on the relevant resolution of the Board to approve the Second Supplemental Agreement at the relevant board meeting. CEC, Huada and their respective associates will abstain from voting in respect of the resolution(s) to approve the Second Supplemental Agreement, the transactions contemplated thereunder and the Revised Caps at the EGM.

We are independent from and not connected with the Group, CEACI, their respective substantial shareholders, directors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules. During the last two years, we have not been engaged as any financial adviser to the Company. Accordingly we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the transactions contemplated under the Existing Products Sales and Distribution Agreement as amended by the Supplemental Agreements and the Revised Caps.

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## LETTER FROM SORRENTO CAPITAL

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### **BASIS AND ASSUMPTIONS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information, opinions and representations expressed to us by the Directors and management of the Company. We have assumed that (i) all such statements, information, opinions and representations expressed to us by the Directors and management of the Company, for which they are solely responsible, are true, accurate and complete in all material aspects at the time they were made and up to the date of the Circular; and (ii) all the opinions and representations have been reasonably made by the Directors and the management of the Company after due and careful enquiry. We have also assumed that the information referred to in the Circular will continue to be true, accurate and complete as at the date of the Circular and if there is any material change of information in the Circular up to the date of the EGM, we will inform the Shareholders as soon as practicable. We have also sought and obtained confirmation from the Directors and/or management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries, nor have we carried out any independent verification of the information supplied.

### **PRINCIPAL FACTORS AND REASONS CONCERNED**

In considering whether the terms of the transactions contemplated under the Existing Products Sales and Distribution Agreement as amended by the Supplemental Agreements (including the Revised Caps) are fair and reasonable and are in the interest of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

#### **1. Background of and reasons for revision of the Existing Annual Caps by entering into the Second Supplemental Agreement**

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 wearables, electronic shelf-labels (ESLs), healthcare devices, smart home devices, as well as industrial appliances. According to the annual report of the Company for the financial year ended 31 December 2021 (the “2021 AR”), the Company recorded a revenue of approximately US\$168.1 million for the financial year ended 31 December 2021 representing an increase of approximately 38.6% as compared to approximately US\$121.3 million for the previous year. Sales of IC products to Hong Kong and the PRC together represented over 60% of total revenue of the Group for each of the two financial years ended 31 December 2021. According to the 2021 AR, revenue attributable to new display ICs and mobile display/mobile touch ICs of the Group increased by approximately 114.8% and 35.1% respectively for the financial year ended 31 December 2021 as compared to previous year. New display ICs mainly refer to bistable display products of the Group and sales of which was driven by its application in ESLs in 2021 in European and the North American markets. According to the 2021 AR, ESLs is not only prevailing in Europe and North America but also becoming an emerging trend in the PRC and other Asian countries. Mobile display and mobile touch ICs of the Group include 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. The Company has engaged CEACI, an established professional technology distributor, as one of its non-exclusive authorised distributors to sell and distribute the Products within the Territory for many years.

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## LETTER FROM SORRENTO CAPITAL

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According to Ministry of Industry and Information Technology of the PRC, the production of ICs in the PRC has increased by approximately 33.3% in 2021 which may indicate the manufacturers' positive anticipation of demand of ICs in the PRC and as set out in the Letter from the Board, in view of the continual worldwide demand in IC products since 2021 resulting in a global shortage of supply, there has been a continual surge of orders for the Group's Products under the Existing Products Sales and Distribution Agreement which exceeded the Group's original projection. Further, there has been a continual 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. By the end of March 2022, the orders (including acknowledged and unacknowledged) received from CEACI for the delivery of IC Products by mid-2022 have already amounted to approximately US\$52 million representing approximately 65% of the Existing Annual Cap for the financial year ending 31 December 2022.

Having considered the importance of Hong Kong and PRC markets to the Group and the increase in sales of IC products (including the Products), we concur with the Company that there is commercial rationale for the Group to revise the Existing Annual Caps by entering into the Second Supplemental Agreement in order to further conduct the Products Sales and Distribution Transactions under the Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements) and the entering into of which are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

### **2. Principal terms of the Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements)**

According to the Letter from the Board, save for revision of the Existing Annual Caps to the Revised Caps, all other terms of the Existing Products Sales and Distribution Agreement (as amended by the First Supplemental Agreement) shall remain unchanged. Pursuant to the Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements), CEACI, as one of the non-exclusive authorised distributors of the Group, sells and distributes the Products within the Territory and the Group should sell the Products directly to CEACI while CEACI shall actively promote the sales and use of the Products within the Territory until 31 December 2023. According to the circular of the Company dated 12 November 2020 in relation to, among things, the Existing Products Sales and Distribution Agreement, the pricing of the Products should be based on the following:-

- (i) the prices for the Products shall be fixed case by case depending on the model(s) of the Products to be sold, and are determined on a cost-plus basis with reference to (a) the actual reasonable cost for manufacturing of the Products; and (b) a fair and reasonable profit margin, which shall be agreed on by the parties after arm's length negotiation taking into account factors including (1) the historical prices for the Products, (2) the market prices of similar products sold within the Territory, (3) market information gathered by the parties, (4) quotations from independent third party(ies), and (5) the technology and quality of the Products. The profit margin will vary for different models of the Products;

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## LETTER FROM SORRENTO CAPITAL

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- (ii) the Group shall provide a reference price table for the Products to CEACI and CEACI shall make its best effort to introduce the Products through its customer base to new customers of the Group. CEACI is responsible for ordering the Products from the Group in accordance with the mutually agreed terms and conditions under each purchase order within the framework of the New Products Sales and Distribution Agreement;
- (iii) to ensure the sales of goods to CEACI are conducted on normal commercial terms, or on terms no less favorable than terms available to independent parties, the management would on a regular basis review the reference price table by comparing the orders from unrelated third parties so that the price and terms offered to CEACI are fair and reasonable and comparable to those offered to unrelated third parties; and
- (iv) the prices offered to CEACI are prepared by the sales department of the Company, reviewed by the department head and approved by the business unit/operation head. These procedures are the same as those adopted in sales to independent third parties.

Payment for the Products shall be settled by CEACI in 30 days AMS (after month statement) from date of invoice or other credit terms to be mutually agreed between the Company and CEACI which shall be conducted on normal commercial terms and comparable with those of the existing customers of the Company.

We have analysed the key terms of the Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements) in the ensuing sections, in relation to the aspects of the Revised Caps and the measures to safeguard interests of Independent Shareholders, and formed our view in the paragraph headed “RECOMMENDATION”.

### 3. Revised Caps and basis of determination

The below table sets out (i) the annual caps for each of the two financial years ended 31 December 2021 and the two financial years ending 31 December 2023 (as amended by the First Supplemental Agreement); (ii) the historical amounts (the “**CCT Amounts**”) of the Products Sales and Distribution Transactions for each of the two financial years ended 31 December 2021 and the three months ended 31 March 2022 (collectively the “**Historical CCT Period**”) under the Existing Products Sales and Distribution Agreement and its prior agreement; and (iii) the Revised Caps in respect of the Products Sales and Distribution Transactions pursuant to the Second Supplemental Agreement for the each of the two financial years ending 31 December 2023:

	CCT Amounts/annual caps for the financial year			
	ended/ending 31 December			
	2020	2021	2022	2023
Existing annual caps (US\$' million)	30	70	80	90
CCT Amounts (US\$' million)	19.4	60.2	22.1	N/A
			(note)	
Revised Caps (US\$' million)	N/A	N/A	135	150

*Note:* Being the transaction amount under the Existing Products Sales and Distribution Agreement for the three months ended 31 March 2022.

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## LETTER FROM SORRENTO CAPITAL

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In order to assess the fairness and reasonableness of the Revised Caps, we have reviewed samples of the Products Sales and Distribution Transactions which amount to over 70% of the total CCT Amounts during each of the two financial years ended 31 December 2021. As part of our due diligence, we have compared the average selling prices of these sample transactions with those of same/similar products sold to independent third parties of the Group during each of the two financial years ended 31 December 2021 and noted that the average selling prices of these sample transactions are generally comparable to those of the independent third parties of the Group. Nevertheless, we were advised by the Company that majority of the Products sold by the Group to CEACI during the three months ended 31 March 2022 were not sold to independent third parties and therefore no comparison of selling prices during the same period can be made. As an alternative analysis, we have obtained a list of the Products transacted during the three months ended 31 March 2022 and compared their gross profit margins for each of the two financial years ended 31 December 2021 when the Group also sold these Products to independent third parties. We noted that gross profit margins of these Products for the three months ended 31 March 2022 are generally comparable to the prior years during the Historical CCT Period. Given (i) the total transaction amounts of the sample transactions represent over 70% of the CCT Amounts during each of the two financial years ended 31 December 2021; and (ii) gross profit margins of all the Products sold to CEACI in the three months ended 31 March 2022 have been reviewed, we consider that our sample size is sufficient and representative.

As regards the Revised Caps to be sought for each of the two financial years ending 31 December 2023, we have obtained and reviewed the expected sales of the Products summing roughly up the Revised Caps. We understand from the Company that such estimates were prepared with consideration of (i) the actual transaction amounts of the Products of approximately US\$60.2 million for the financial year ended 31 December 2021 and approximately US\$22.1 million for the three months ended 31 March 2022; (ii) the amount of orders (including acknowledged and unacknowledged) received from CEACI for the delivery of the Products by mid-2022, being approximately US\$52 million; (iii) the expectation that the orders received by the Group for the Products will continue to increase as demonstrated by the continual surge of orders of the Products during the Historical CCT Period; and (iv) the increase in the Group's material costs and production costs of the Products and the need to raise the selling price of the Products to maintain their gross profit margins at reasonable level.

We have reviewed the CCT Amounts of the Products during the Historical CCT Period and noted that the utilisation rate of the relevant annual caps (as amended by the First Supplemental Agreement) were approximately 64.7% and 86.0% for the financial year ended 31 December 2020 and 2021 respectively whilst the CCT Amount for the first three months ended 31 March 2022 has already exceeded the proportionate annual cap by approximately 10.5%. As set out in the Letter from the Board, the orders (including acknowledged and unacknowledged) received from CEACI for the delivery of Products by mid-2022 have already amounted to approximately US\$52 million of which approximately US\$22.1 million has been recognised to the revenue of the Group for the first quarter of 2022. On the basis that the aforesaid orders will be completed timely in full, the Group may further recognise sales of approximately US\$29.9 million from the aforesaid orders in the second quarter of 2022 representing an increase in transaction amount of approximately 35.3% as compared to the first quarter of 2022 which is already comparable to the annual growth rate of revenue of the Group of approximately 38.6% for the financial year ended 31 December 2021.

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## LETTER FROM SORRENTO CAPITAL

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Given the aforesaid sustainable growth rate in revenue of the Group and CCT Amounts as demonstrated by the Company, the Company expected to receive further orders from CEACI in second half of 2022 and anticipated the Revised Cap of US\$135 million for the financial year ended 31 December 2022. As regards the Revised Cap for the financial year ending 31 December 2023, we were advised by the Company that the Company has assumed an annual growth rate of CCT Amount of approximately 11.1% (being US\$150 million over US\$135 million) which is comparable to the original one of 12.5% (being US\$90 million over US\$80 million) when determining the Existing Annual Cap for the same year.

As part of our due diligence, we have reviewed the Group's average unit purchase price of wafer, being major raw materials of the Products, for the 12 months up to 31 March 2022 and noted that it has increased by approximately 48.7%. Furthermore, we have reviewed the average unit selling prices of the Products during the Historical CCT Period and noted that majority of them are on an increasing trend with significant raise. On the other hand, we have conducted independent research on the relevant industry and noted that the production of ICs in the PRC has increased by approximately 33.3% in 2021 according to the statistics published by Ministry of Industry and Information Technology of the PRC which is comparable to the aforesaid revenue growth of the Group for the financial year ended 31 December 2021 and in line with the trend of the CCT Amount for the first three months ended 31 March 2022.

Having considered (i) the aforesaid improvement in sales of the Group in 2021 and the continuous increase in CCT Amount in the first half of 2022; (ii) the continuous increase in major raw material costs and average selling prices of the Products in the Historical CCT Period; and (iii) the growth of relevant industry in the PRC, we are of the view that the bases on which the Revised Caps were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole and the Revised Caps are fair and reasonable, and we consider that the Products Sales and Distribution Transactions are to be carried out on normal commercial terms and in the ordinary and usual course of business.

#### **4. Internal control measures within the Group**

As advised by the Company, the Company has adopted certain measures to ensure that the Products Sales and Distribution Transactions are properly controlled and monitored and in compliance with the Listing Rules:

- (i) the internal audit team of the Company would review semi-annually on connected transactions, identity of connected persons and conduct price comparison between the Products Sales and Distribution Transactions and third party transactions;
- (ii) the Company would regularly monitor the amounts of the Products Sales and Distribution Transactions as well as backlog amounts such that the Revised Caps would not be exceeded;

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## LETTER FROM SORRENTO CAPITAL

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- (iii) the independent non-executive Directors will review the transactions under the Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements) and the Revised Caps annually to check and confirm whether the Products Sales and Distribution Transactions have been conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such transactions are conducted in accordance with the pricing policies set out in such relevant agreements; and
- (iv) the Company's external auditors will review the transactions under the Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements) and the Revised Caps annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant Revised Caps have been exceeded.

Having considered the abovementioned, in particular, (i) the restriction of the value of the Products Sales and Distribution Transactions by way of the Revised Caps; (ii) the abovementioned internal control measures adopted by the Company; and (iii) the ongoing review by the audit committee and the auditors of the Company of the terms of the Products Sales and Distribution Transactions and the Revised Caps not being exceeded, we are of the view that the Company has established appropriate and effective internal control procedures to ensure the transactions under the Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements) will be conducted on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM SORRENTO CAPITAL

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### RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the opinion that the terms of Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements), the transactions contemplated thereunder and the Revised Caps are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the resolution(s) proposed at the EGM thereby approving the Second Supplemental Agreement, the transactions contemplated under the Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements) and the Revised Caps.

Yours faithfully,  
For and on behalf of  
**Sorrento Capital Limited**

**Wesker Poon**  
*Managing Director*

*Note:* Mr. Wesker Poon is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than ten years of experience in corporate finance and investment banking. Mr. Wesker Poon has participated in and completed various advisory transactions (including connected transactions of listed companies in Hong Kong).

## INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions of each Director and the chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of the SFO), as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

## Ordinary shares of HK\$0.10 each in the Company as at the Latest Practicable Date

	Position	Number of shares held	Number of share options held	Total	Approximate% of the issued share capital of the Company
<b>Independent Non-executive Directors</b>					
Leung Heung Ying	Long	2,400,000	800,000	3,200,000	0.13%
Sheu Wei Fu	Long	1,600,000	1,600,000	3,200,000	0.13%
Chan Philip Ching Ho	Long	–	800,000	800,000	0.03%
<b>Non-executive Directors</b>					
Ma Yuchuan	Long	–	–	–	–
Wang Hui	Long	–	–	–	–
Kang Jian	Long	–	–	–	–
<b>Executive Director</b>					
Wang Wah Chi, Raymond	Long	5,600,000	3,000,000	8,600,000	0.34%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code.

**INTERESTS OF SUBSTANTIAL SHAREHOLDERS**

The register of substantial shareholders required to be kept by the Company under Section 336 of Part XV of the SFO shows that as at the Latest Practicable Date, the Company had been notified of the following substantial shareholders' interests and short positions in the shares or underlying shares of the Company, being interests of 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and the chief executive of the Company.

**Ordinary shares of HK\$0.10 each in the Company as at the Latest Practicable Date**

<b>Name</b>	<b>Capacity</b>	<b>Position</b>	<b>Number of shares held</b>	<b>Approximate% of the issued share capital of the Company</b>
Huada Semiconductor Co., Ltd	Beneficial owner	Long	706,066,000	28.31%
China Electronics Corporation	Interest of controlled corporation	Long	706,066,000	28.31%

Save as disclosed above, the Directors and chief executive of the Company are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of the Group or any options in respect of such capital.

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors were officers in the CEC group (whereas CEC is the indirect substantial shareholder of the Company) as shown below:

<b>Name of Director</b>	<b>Positions held</b>
Mr. Ma Yuchuan	Vice general manager of Huada
Mr. Wang Hui	Director, development and planning department of Huada
Dr. Kang Jian	Head of the investment management department of Huada

**SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors of the Company had entered, or proposed to enter, into a service contract with any members of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**COMPETING INTERESTS**

As at the Latest Practicable Date, so far was known to the Directors, none of the Directors or their respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group (other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group) or have any other conflicts of interest with the Group pursuant to the Listing Rules.

**DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, any members of the Group or were proposed to be acquired or disposed of by, or leased to, any members of the Group since 31 December 2021 (being the date to which the latest published audited accounts of the Group were made up).

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

**MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited accounts of the Group were made up.

**EXPERT AND CONSENT**

The following is the qualification of the expert which has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Sorrento Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Sorrento Capital did not have any shareholding in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, direct or indirect, in any assets which had, since 31 December 2021, being the date to which the latest published audited accounts of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Sorrento Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the forms and contexts in which they appear. The letter of the Sorrento Capital contained herein was issued on 7 June 2022 and was made by Sorrento Capital for incorporation in this circular.

**DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.solomon-systech.com](http://www.solomon-systech.com)) from the date of this circular up to and including 22 June 2022:

- (i) the Existing Products Sales and Distribution Agreement;
- (ii) the First Supplemental Agreement; and
- (iii) the Second Supplemental Agreement.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Shareholders of Solomon Systech (International) Limited (the “**Company**”) will be held at 3:00 p.m. on 22 June 2022, Wednesday (or immediately after the conclusion of the annual general meeting of the shareholders of the Company to be held on the same date) at Unit 607-613, 6/F, Wireless Centre, No. 3 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, for the purpose of considering and, if thought fit, passing the following resolutions. Capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated on 7 June 2022 unless otherwise specified.

#### **ORDINARY RESOLUTION**

“**THAT** the Second Supplemental Agreement and the Revised Caps for the transactions contemplated under the Existing Products Sales and Distribution Agreement (as amended by the Supplemental Agreements) for the two years ending 31 December 2023 of US\$135 million and US\$150 million, respectively, be and are hereby approved; and the Board of the Company be and is hereby authorised to take all actions necessary or expedient in its opinion to implement and/or give effect to the Second Supplemental Agreement and the Revised Caps.”

On behalf of the Board

**SOLOMON SYSTECH (INTERNATIONAL) LIMITED**

**WANG Wah Chi, Raymond**

*Chief Executive Officer*

Hong Kong, 7 June 2022

*As at the date of this notice, 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.*

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

- (a) Any shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.
- (b) In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notorially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (c) For determining the entitlement to attend and vote at the above meeting, the register of members of the Company will be closed from Friday, 17 June 2022 to Wednesday, 22 June 2022, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates and forms of transfer must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 pm on Thursday, 16 June 2022.
- (d) All resolutions at the meeting will be taken by poll (except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Listing Rules. The results of the poll will be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.solomon-systech.com](http://www.solomon-systech.com)) in accordance with the Listing Rules.
- (e) A form of proxy for use in connection with the EGM is enclosed and such form is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.solomon-systech.com](http://www.solomon-systech.com)).

This circular, in both English and Chinese versions (the “Circular”), is available on the Company’s website at [www.solomon-systech.com](http://www.solomon-systech.com) (the “Company Website”).

Shareholders who have chosen or have been deemed consented to receive the corporate communications (as defined in the Listing Rules) of the Company via the Company Website and for any reason have difficulty in receiving or gaining access to the Circular posted on the Company Website may obtain a printed copy of the Circular free of charge by sending a written request to the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong or by sending an email to the Company’s Hong Kong Share Registrar at **[solomon2878-ecom@hk.tricorglobal.com](mailto:solomon2878-ecom@hk.tricorglobal.com)**.

Shareholders may at any time change their choice of the means of receipt (either in printed form or via the Company Website) of corporate communications by any of the above methods.