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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)

**RENEWAL OF CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



Sorrento Capital Limited

A letter from the Board is set out on pages 4 to 12 of this circular and a letter from the Independent Board Committee is set out on page 13 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 14 to 22 of this circular.

A notice convening an EGM of Solomon Systech (International) Limited to be held at 2:30 p.m. on Wednesday, 20 December 2023 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 27 to 28 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time (i.e. by Monday, 18 December 2023 at 2:30 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.

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DEFINITIONS

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

“2021 Products Sales and Distribution Agreement”	the agreement dated 22 October 2020 entered into between Company and CEACI governing the terms and conditions for 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 Previous Products Sales and Distribution Announcements and Circular;
“2024 Products Sales and Distribution Agreement”	the agreement dated 14 November 2023 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 2026;
“2024 Products Sales and Distribution Transactions”	the transactions as contemplated under the 2024 Products Sales and Distribution Agreement in relation to the sales and distribution of the Products of the Group within the Territory;
“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 [#]), 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 (previously known as “深圳中電國際信息科技有限公司 (CEC Port Technology Co., Ltd. [#])”), a company established in the PRC, the issued shares of which are listed on the Shenzhen Stock Exchange (stock code: 001287), CEC being its major shareholder, 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;

DEFINITIONS

“connected persons”	has the same meaning as ascribe to it under the Listing Rules
“Director(s)”	director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened at 2:30 p.m. on Wednesday, 20 December 2023 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 2024 Products Sales and Distribution Transactions and the New Transaction Caps;
“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. Chan Chi Kong, Dr. Chan Philip Ching Ho and Dr. Kwok Hoi Sing;
“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 2024 Products Sales and Distribution Agreement, the transactions contemplated thereunder and the New Transaction Caps;
“Independent Shareholders”	Shareholders other than CEC and its associates;
“Latest Practicable Date”	29 November 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular;
“LCD”	liquid crystal display;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

DEFINITIONS

“Mainland China”	for the purpose of this circular including the PRC but excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan;
“New Transaction Cap(s)”	the proposed new annual cap amounts in relation to the 2024 Products Sales and Distribution Transactions for each of the three financial years ending 31 December 2024, 2025 and 2026;
“PRC”	the People’s Republic of China;
“Previous Products Sales and Distribution Announcements and Circulars”	the Company’s announcements dated 22 October 2020, 23 March 2021 and 6 May 2022, and circulars dated 12 November 2020, 21 April 2021 and 7 June 2022, which disclosed, among others, (i) the entering into of the 2021 Products Sales and Distribution Agreement and the terms and conditions of the transactions contemplated under the 2021 Products Sales and Distribution Agreement which constituted a continuing connected transaction of the Company under the Listing Rules; and (ii) the revision of the annual caps in respect of the 2021 Products Sales and Distribution Agreement;
“Products”	IC and driver products of the Group;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“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;
“Territory”	Mainland China and Hong Kong;
“US\$”	the United States Dollars, the lawful currency of the United States of America; and
“%”	per cent.

For identification purposes only

LETTER FROM THE BOARD



**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*

Chan Chi Kong**

Chan Philip Ching Ho**

Kwok Hoi Sing**

Registered office:

3rd 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

5 December 2023

To the Shareholders

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 14 November 2023 in relation to the entering into of the 2024 Products Sales and Distribution Agreement in respect of the 2024 Products Sales and Distribution Transactions for the three years ending 31 December 2026.

LETTER FROM THE BOARD

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 2024 Products Sales and Distribution Transactions.

II. RENEWAL OF CONTINUING CONNECTED TRANSACTION

1. 2024 Products Sales and Distribution Agreement

A summary of salient terms of the 2024 Products Sales and Distribution Agreement and the relevant arrangements is set out below.

<i>Date</i>	:	14 November 2023
<i>Parties</i>	:	(i) the Company; and (ii) CEACI
<i>Nature of transaction</i>	:	Pursuant to the 2024 Products Sales and Distribution Agreement, CEACI is appointed as one of the non-exclusive authorized distributors of the Group to sell and distribute the Products within the Territory. The Group shall sell the Products to CEACI directly without recourse and without paying CEACI any commission, and CEACI shall act as one of the authorised channels to sell the Group's Products with reference to the Group's suggested selling price. CEACI shall manage the sales and distribution of the Products within the Territory and other detailed operations for promotion, product ordering and delivery cooperation.
<i>Term</i>	:	Starting on 1 January 2024 and ending on 31 December 2026, subject to the approval by the Independent Shareholders.
<i>Pricing basis and policy</i>	:	(i) The prices for the Products shall be determined fairly in accordance with the costs, resources and technology requirements with reference to market practices and prices, and having taken into account the technology and quality of the Products.

LETTER FROM THE BOARD

- (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 2024 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.
- (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.

The Board considers that the abovementioned methods and procedures can ensure that the engagement be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

Payment terms : Payment for the Products shall be settled by CEACI in cash on a 30 days net 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.

Others : Each party shall exercise its rights and comply with its obligations as stipulated in the 2024 Products Sales and Distribution Agreement, relevant purchase orders or other related contracts.

LETTER FROM THE BOARD

2. Transaction caps

(a) *Historical transaction amounts*

The historical amounts of the sale of the Products by the Group to CEACI for each of the year ended 31 December 2021 and 2022 and for the ten months ended 31 October 2023 are set out as follows:

Financial year/period	Historical amount of the transactions (US\$'000)	Previously approved annual cap amount (US\$'000)
For the year ended 31 December 2021	60,166	70,000
For the year ended 31 December 2022	71,151	135,000
For the ten months ended 31 October 2023	47,800	150,000

(b) *New Transaction Caps*

The New Transaction Caps proposed for each of the three years ending 31 December 2026 are US\$65 million, US\$75 million and US\$85 million, respectively (*Note*).

The New Transaction Caps for the three years ending 31 December 2026 are determined with reference to:

- (i) the historical figures of the sales of the Products by the Group to CEACI, in particular, in respect of the ten months ended 31 October 2023 which amounted to approximately US\$47.8 million in aggregate;
- (ii) the existing sales orders for the year ending 31 December 2023 already placed by CEACI;
- (iii) the estimated demand of the Group's new products (some of which were launched in 2023 and some will be launched in 2024) which would bring positive impact on the sales of the Products to CEACI, particularly display ICs;
- (iv) the expected increase in demand of the Group's existing core products due to the expected growth of global semiconductor market in 2024 by approximately 11.8% primarily driven by the growth of ICs, and the expected growth of the electronic shelf-labels market at a compound annual growth rate of 13.9% from 2023 to 2028 in view of the growing trends in retail sector and adoption of retail automation such as electronic shelf-labels; and
- (v) the recent policies promulgated by the PRC government to promote and support the IC and new display industries in the PRC.

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

LETTER FROM THE BOARD

3. Reasons for and benefits of entering into the 2024 Products Sales and Distribution Agreement

The Group specializes 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.

The Group had 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 and has built up a long term strategic and solid business relationship with CEACI. Hence, the Directors (excluding the independent non-executive Directors who will provide their views after considering the advice of the Independent Financial Adviser) consider it beneficial to the Group to continue to conduct such arrangement with CEACI in order to ensure and maximize operating efficiency and generate stable and predictable revenue.

The transactions under the 2024 Products Sales and Distribution Agreement are entered into in the ordinary and usual course of business of the Group. The terms and conditions of the 2024 Products Sales and Distribution Agreement and the transactions thereunder (including the New Transaction Caps) were determined after arm's length negotiations between CEACI and the Company.

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 2024 Products Sales and Distribution Agreement for the three years ending 31 December 2026 with the respective New Transaction Caps, and that the terms of the 2024 Products Sales and Distribution Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors have approved the 2024 Products Sales and Distribution Agreement at the meeting of the Board on 14 November 2023. Mr. Ma Yuchuan, Mr. Wang Hui and Dr. Kang Jian who are director or senior officers of the subsidiaries under 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 2024 Products Sales and Distribution Agreement and has to abstain from voting for the reason of having a material interest in such transactions.

4. Information of 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.

LETTER FROM THE BOARD

5. 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. Both CECP and CEACI are distributors 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 an indirect associate of the CEC and is a wholly-owned subsidiary of CECP, which is, in turn, insofar as the Board is aware, held:

- (i) as to approximately 31.34% by 中國中電國際信息服務有限公司 (China Electronics International Information Service Company Limited**), which is 81.66% owned by CEC;
- (ii) as to approximately 10.63% 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 7.09% 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;
- (iv) as to approximately 7.09% 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;
- (v) as to approximately 6.79% 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 managed by the general partner 深圳市融思拓實業發展有限公司 (Shenzhen Rongsituo Shiye Development Co., Ltd.**), and held by three investment funds (namely, 共青城億科合思投資管理合夥企業(有限合夥) (Gongqingcheng Yikehesi Investment Management Partnership (LP)**), 共青城億科合拓投資管理合夥企業(有限合夥) (Gongqingcheng Yikehetuo Investment Management Partnership (LP)**) and 共青城億科合達投資管理合夥企業(有限合夥) (Gongqingcheng Yikeheda Investment Management Partnership (LP)**)) 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);
- (vi) as to approximately 4.31% by CEC;

LETTER FROM THE BOARD

- (vii) as to approximately 3.6% 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 1.27% 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 managed by the general partner 深圳前海康悅資產管理有限公司 (Shenzhen Qianhai Kongyue Asset Management Co., Ltd.**), and held by an investment fund (namely, 珠海橫琴同心同立股權投資合夥企業(有限合夥) (Qinhai Hengqin Tongxin Tongli Shareholding Investment Partnership (LP)**)) 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); and
- (ix) as to approximately 27.88% by public shareholders.

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.

6. Listing Rules Implications

As at the Latest Practicable Date, CEC, through its subsidiary, Huada, holds indirectly 706,066,000 Shares, representing approximately 28.29% of the existing total number of issued shares of the Company. CEC is a substantial shareholder of the Company. So far as the Directors are aware, as at Latest Practicable Date, CEC owns as to approximately 35.65% of CECP, which wholly owns CEACI. Accordingly, CEACI is a connected person of the Company and the transactions under the 2024 Products Sales and Distribution Agreement constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio for the 2024 Products Sales and Distribution Transactions is more than 5%, the 2024 Products Sales and Distribution Transactions 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 2024 Products Sales and Distribution Transactions and the New Transactions Caps at the EGM.

7. General

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the transactions under the 2024 Products Sales and Distribution Agreement. Sorrento Capital has been appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders on the transactions under the 2024 Products Sales and Distribution Agreement. The views of the Independent Board Committee on the 2024 Products Sales and Distribution Agreement and the transactions contemplated thereunder and the New Transaction Caps after considering the advice from Sorrento Capital are set out in the Letter from the Independent Board Committee on page 13 of this circular.

LETTER FROM THE BOARD

III. EGM AND PROXY ARRANGEMENT

The notice of the EGM is set out on pages 27 to 28 of this circular. At the EGM, resolutions will be proposed to approve the 2024 Products Sales and Distribution Transactions and the New Transaction Caps.

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 2024 Products Sales and Distribution Agreement, the transactions contemplated thereunder and the New Transaction 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 28.29% of the total issued share capital of the Company. Save as disclosed in this circular, no other shareholder has any material interest in the 2024 Products Sales and Distribution Agreement 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) and the Company's website (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) and the Company's website (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 17/F, Far East Finance Centre, 16 Harcourt Road, 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.

LETTER FROM THE BOARD

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 2024 Products Sales and Distribution Agreement and the transactions contemplated thereunder and the New Transaction Caps are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution regarding the 2024 Products Sales and Distribution Transactions 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 23 to 26 of this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



**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)

5 December 2023

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to advise you in connection with the 2024 Products Sales and Distribution Transactions, details of which are set out in the letter from the Board contained in the circular dated 5 December 2023 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 2024 Products Sales and Distributions Agreement and New Transaction 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 14 to 22 of the Circular, we are of the opinion that the terms of 2024 Products Sales and Distribution Agreement (including the New Transaction Caps), the transactions contemplated thereunder and the New Transaction 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 2024 Products Sales and Distribution Agreement (including the New Transaction Caps) to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Chan Chi Kong
Independent
non-executive Director

Chan Philip Ching Ho
Independent
non-executive Director

Kwok Hoi Sing
Independent
non-executive Director

LETTER FROM SORRENTO CAPITAL

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 2024 Products Sales and Distribution Agreement and the New Transaction Caps for the purpose of inclusion in the Circular.



Room 1208, 12/F,
Wing On Centre,
111 Connaught Road Central,
Sheung Wan,
Hong Kong

5 December 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTION

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. Mainland China and Hong Kong) (the “**2024 Products Sales and Distribution Transactions**”) pursuant to the 2024 Products Sales and Distribution Agreement between the Company and CEACI International Limited (“**CEACI**”) and the new annual caps (the “**New Transaction Caps**”) for the three financial years ending 31 December 2026, 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 5 December 2023 (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 2021 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 the Products within the Territory for the three financial years ending 31 December 2023. Pursuant to the relevant supplemental agreements to the 2021 Products Sales and Distribution Agreement, the annual caps for each of the three financial years ending 31 December 2023 (the “**Existing Annual Caps**”) have been revised to US\$70 million, US\$135 million and US\$150 million respectively and the Existing Annual Caps were approved by the then Independent Shareholders at the relevant general meetings.

As the Company and CEACI intends to continue the transactions under the 2021 Products Sales and Distribution Agreement, parties entered into the 2024 Products Sales and Distribution Agreement on 14 November 2023 (after trading hours) pursuant to which the transactions thereunder will be extended for a term commencing from 1 January 2024 to 31 December 2026, both days inclusive, subject to the New Transaction Caps and approval by the Independent Shareholders at the EGM.

LETTER FROM SORRENTO CAPITAL

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 CEC Port Technology Co., Ltd. for identification purpose, “**CECP**”) which is in turn owned as to (i) approximately 31.34% 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**”); and (ii) approximately 4.31% by CEC. As at the Latest Practicable Date, CEC is indirectly interested in approximately 28.29% of the existing issued shares of the Company through its 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 transactions under the 2024 Products Sales and Distribution Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio for the 2024 Products Sales and Distribution Transactions is more than 5%, the 2024 Products Sales and Distribution Transactions will be 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. Chan Chi Kong, Dr. Chan Philip Ching Ho and Dr. Kwok Hoi Sing, all being the independent non-executive Directors, has been established by the Board to consider the terms of the 2024 Products Sales and Distribution Agreement (including the New Transaction Caps) and to make recommendation to the Independent Shareholders as regards to 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 2024 Products Sales and Distribution Agreement (including the New Transaction 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 director or senior officers of the subsidiaries under the CEC group, they have abstained from voting on the relevant resolution of the Board to approve the 2024 Products Sales and Distribution 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 2024 Products Sales and Distribution Agreement, the transactions contemplated thereunder and the New Transaction 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, save for acting as independent financial adviser of the Company in connection with the revision of annual caps for the 2021 Products Sales and Distribution Agreement (for details, please refer to the circular of the Company dated 7 June 2022), we have not been engaged as any financial adviser or other roles to provide any other services 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 2024 Products Sales and Distribution Agreement and the New Transaction Caps.

LETTER FROM SORRENTO CAPITAL

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 2024 Products Sales and Distribution Agreement (including the New Transaction 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 entering into the 2024 Products Sales and Distribution Agreement

The Group is principally engaged in the design, development and sales of integrated circuits products and system solutions that enable a wide range of display applications for smartphones, tablets, smart TVs/monitors, notebooks and other smart devices including electronic shelf-labels (ESLs), wearables, healthcare devices, smart home devices, as well as industrial appliances. According to the annual report of the Company for the financial year ended 31 December 2022 (the “**2022 AR**”) and the interim report of the Company for the six months ended 30 June 2023 (the “**2023 IR**”), the Company recorded a revenue of (i) approximately US\$190.8 million for the financial year ended 31 December 2022 representing an increase of approximately 13.5% as compared to approximately US\$168.1 million for the previous year; and (ii) approximately US\$85.3 million for the six months ended 30 June 2023 representing a decrease of approximately 21.4% as compared to approximately US\$108.5 million for the same period in previous year. Sales of IC products to Hong Kong and Mainland China together represented over 60% of total revenue of the Group for each of the two financial years ended 31 December 2022 and over 56% for the six months ended 30 June 2023. According to the 2022 AR, revenue attributable to new display ICs and mobile display/mobile touch ICs of the Group increased by approximately 23.2% and 55.4% respectively for the financial year ended 31 December 2022 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 2022 in European and the North American markets.

LETTER FROM SORRENTO CAPITAL

According to the 2022 AR, ESLs is not only prevailing in Europe and North America but also becoming an emerging trend in 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.

According to the 2023 IR, revenue attributable to new display ICs and mobile display/mobile touch ICs of the Group decreased by approximately 19.9% and 10.8% respectively for the six months ended 30 June 2023 as compared to the same period in previous year mainly due to (i) a slowdown in demand and keen competition in the market for display ICs; and (ii) slowing down of sales to retailers who are interested in switching to ESL but have been waiting for the launch of the new generation four-colour display. The Company considers the demand for game console controller ICs is growing fast and thus has made preparation in the sector by actively leveraging on its profound expertise in TDDI technology and has successfully secured manufacturing orders into 2024 to make contribution to the Group's sustainable revenue base.

According to National Bureau of Statistics of the PRC, the production volume of ICs in Mainland China has decreased by approximately 9.8% in 2022 as compared to 2021 but such decrease became only 0.1% in the first three quarters of 2023 as compared to the same period in 2022 showing a significant improvement. Furthermore, on 10 August 2023, Ministry of Industry and Information Technology of the PRC issued a solution (the “**Solution**”) for the stable growth of information technology industry in 2023 and 2024 (電子信息製造業2023—2024年穩增長行動方案) which sets out a target growth of computer, communication and electronics sectors up to 2024 and mentions the promotion of investment in, among other things, IC and new display industries.

Having considered the above recent macroeconomic of the IC industry, the support of the PRC government and the importance of Hong Kong and Mainland China markets to the Group and the expected increase in sales of IC products (including the Products), we concur with the Company that there is commercial rationale for the Group to continue the 2024 Products Sales and Distribution Transactions by entering into the 2024 Products Sales and Distribution Agreement which is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM SORRENTO CAPITAL

2. Principal terms of the 2024 Products Sales and Distribution Agreement

Pursuant to the 2024 Products Sales and Distribution Agreement, 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. The Group shall sell the Products to CEACI directly without recourse and without paying CEACI any commission, and CEACI shall act as one of the authorised channels to sell the Group's Products with reference to the Group's suggested selling price. CEACI shall manage the sales and distribution of the Products within the Territory and other detailed operations for promotion, product ordering and delivery cooperation until 31 December 2026. The pricing of the Products should be based on the following:-

- (i) the prices for the Products shall be determined fairly in accordance with the costs, resources and technology requirements with reference to market practices and prices, and having taken into account the technology and quality of the Products;
- (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 2024 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 cash on a 30 days net 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 2024 Products Sales and Distribution Agreement in the ensuing sections, in relation to the aspects of the New Transaction Caps and the measures to safeguard interests of Independent Shareholders, and formed our view in the paragraph headed "RECOMMENDATION".

LETTER FROM SORRENTO CAPITAL

3. New Transaction Caps and basis of determination

The below table sets out (i) the Existing Annual Caps for each of the three financial years ending 31 December 2023; (ii) the historical transaction amounts (the “**CCT Amounts**”) of the Products for each of the two financial years ended 31 December 2022 and the nine months ended 31 October 2023 (collectively the “**Historical CCT Period**”) under the 2021 Products Sales and Distribution Agreement; and (iii) the New Transaction Caps in respect of the 2024 Products Sales and Distribution Transactions pursuant to the 2024 Products Sales and Distribution Agreement for the each of the three financial years ending 31 December 2026:

	For the financial year ended/ending 31 December					
	2021	2022	2023	2024	2025	2026
Existing Annual Caps/ New Transaction Caps (US\$' million)	70.0	135.0	150.0	65.0	75.0	85.0
CCT Amounts (US\$' million)	60.2	71.2	47.8 (note)	N/A	N/A	N/A

Note: Being the unaudited transaction amount under the 2021 Products Sales and Distribution Agreement for the ten months ended 31 October 2023.

In order to assess the fairness and reasonableness of the New Transaction Caps, we have reviewed the transaction records of 30 major Products (the “**Major Products**”) under the 2021 Products Sales and Distribution Agreement, including item codes, sales quantities and average selling prices, with total sales amount of the Major Products to CEACI over 70% of the CCT Amounts during the Historical CCT Period. As part of our due diligence, we have also selected those Major Products with significant revenue contribution and reviewed over 330 sample sales invoices of these Major Products (approximately 56% of which is relating to sales to CEACI and approximately 44% of which is relating to sales to independent third-party customers). Given the total transaction amount of the Major Products represents majority of the CCT Amounts with the support of the abovementioned sample invoices having a total amount of around one-fourth of the CCT Amounts during the Historical CCT Period, we consider that the sample size of transaction records we have reviewed is sufficient. We have compared the average selling prices of the Major Products with those of same/similar products sold to independent third parties of the Group during the Historical CCT Period and noted that (i) majority of the average selling prices of the Major Products sold to CEACI are higher than or without significant deviation from those of the independent third parties of the Group; and (ii) some average selling prices of the Major Products sold to the independent third parties of the Group are higher than those of the CEACI but the relevant invoice amounts to these independent third parties were insignificant or relatively small as compared with CEACI. Therefore, we consider that price of the Products are generally comparable to those of the independent third parties of the Group.

As regards the New Transaction Caps to be sought for each of the three financial years ending 31 December 2026, we understand from the Company that such estimates were prepared with consideration of (i) the actual transaction amounts of the Products of approximately US\$71.2 million for the financial year ended 31 December 2022 and approximately US\$47.8 million for the ten months ended 31 October 2023; (ii) the expected growth of global semiconductor market in 2024; (iii) the expected growth of ESL market in near future; and (iv) the launch of the Group’s new Products.

LETTER FROM SORRENTO CAPITAL

We have reviewed the CCT Amounts of the Products during the Historical CCT Period and noted that the utilisation rate of the relevant Existing Annual caps were approximately 86.0%, 52.7% and 38.2% (on annualised basis) for the financial year ended 31 December 2021 and 2022 and the ten months ended 31 October 2023 respectively. As advised by the Company, (i) the relatively high utilisation rate of the Existing Annual Cap for 2021 was mainly due to worldwide increase of demand of ICs since 2021 resulting a global shortage of supply and thus the continuing surge of orders and increase of average selling price of the Group's Products; (ii) the decrease in utilisation rate of the Existing Annual Cap for 2022 was mainly due to the gradual resumption of global supply chain to normal in the second half of 2022 leading to the stable supply of raw materials, such as wafer, and decrease in sub-contracting costs, and consequently the lower average selling price of the Group's Products; and (iii) the continuous decrease in utilisation rate of the Existing Annual Cap for 2023 was mainly due to the overstock of electronic components in the market before and recent macroeconomic impact leading to weak consumer demand, and correspondingly revenue of the Company decreased by approximately 21.4% during the first six months ended 30 June 2023 as compared to the same period in previous year.

However, the Company believes that there will be a recovery in the global and PRC IC market in 2024 and thus the Company expects an increase of (i) around 13.2% in 2024 (as compared with the annualised CCT Amount of approximately US\$57.4 million for the year ending 31 December 2023); and (ii) US\$10 million in the CCT Amount per annum in 2025 and 2026. As advised by the Company, the Group launched the world's first small-sized passive matrix micro-LED display driver IC during the six month ended 30 June 2023 and expects to further launch the E Ink supported display IC solutions in late 2023 to early 2024 that enables a four colour spectrum display for Spectra™ 3100, a next-generation specialised platform for ESL and retail signage application. Furthermore, the Group is developing large display applications in addition to ESL, such as large colour electronic retail signage, which is expected to commence mass production in the second half of 2024. Therefore, we concur with the Company that the launch of new products would bring positive impact on the sales of the Products to CEACI, particularly display ICs which have contributed most to the CCT Amounts during the Historical CCT Period.

As mentioned in the paragraph headed "1. Background of and reasons for entering into the 2024 Products Sales and Distribution Agreement", the production volume of ICs in Mainland China has almost stopped the decrease in the first three quarters of 2023 as compared to the same period in 2022 according to National Bureau of Statistics of the PRC and the PRC government has recently issued the Solution to support the IC and new display industries in the PRC. Furthermore, according to World Semiconductor Trade Statistics (a non-profit mutual benefit corporation to define services for the world semiconductor industry, including management of the collection and publication of trade net shipments and semiconductor industry forecasts), the global semiconductor market is expected to surge by approximately 11.8% in 2024 primarily driven by the growth of ICs. Besides, according to the ESL Market Size & Share Analysis (2023 to 2028) issued by Mordor Intelligence (a market research company based in India, partnered with over 6,000 enterprises across 20 industries), the ESL market size is expected to grow at a compound annual growth rate of approximately 13.9% from 2023 to 2028 in view of the growing trends in retail sector and rise of organised retail sector in developing countries such as the PRC, and adoption of retail automation such as ESL.

LETTER FROM SORRENTO CAPITAL

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 Historical CCT Period and noted that it was generally on increasing trend from January 2021 to September 2022 at the rate of approximately 78.5% during such period but then decreased by approximately 24.6% to the recent level in September 2023 and the average unit purchase price of wafer has been relatively stable in the third quarter of 2023 as compared with other period in the Historical CCT Period. As advised by the Company, the Group adjusts unit prices of the Products from time to time taking into account the relevant raw material costs in order to maintain reasonable profit margins, and thus the lower material cost as mentioned before allows the Group to lower the average selling price of the Products to stimulate the demand of the Products for maintaining or expanding the coverage of the Group's end customers.

Having considered the abovementioned (i) global semiconductor and ESL industry/market statistics and analysis; (ii) recent trend of production volume of ICs in Mainland China; (iii) support of IC and new display industry by the PRC government; (iv) launch of new products by the Group to cope with the market growth and technological change; and (v) potential price adjustments of and increase in demand for the Products to CEACI, we are of the view that the bases on which the New Transaction Caps were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole and the New Transaction Caps are fair and reasonable, and we consider that the 2024 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 2024 Products Sales and Distribution Transactions are properly controlled and monitored and in compliance with the Listing Rules:

- (i) the internal audit team or external internal audit consultant of the Company would review the connected transactions in a regular basis, identity of connected persons and conduct price comparison between the 2024 Products Sales and Distribution Transactions and third party transactions;
- (ii) the Company would regularly monitor the amounts of the 2024 Products Sales and Distribution Transactions as well as backlog amounts such that the New Transaction Caps would not be exceeded;
- (iii) the independent non-executive Directors will review the transactions under the 2024 Products Sales and Distribution Agreement and the New Transaction Caps annually to check and confirm whether the 2024 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

LETTER FROM SORRENTO CAPITAL

- (iv) the Company's external auditors will review the transactions under the 2024 Products Sales and Distribution Agreement and the New Transaction Caps annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant New Transaction Caps have been exceeded.

Having considered the abovementioned, in particular, (i) the restriction of the value of the 2024 Products Sales and Distribution Transactions by way of the New Transaction 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 2024 Products Sales and Distribution Transactions and the New Transaction Caps not being exceeded, we are of the view that the Company has established appropriate and effective internal control procedures to ensure the 2024 Products Sales and Distribution Agreement will be conducted on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the opinion that the terms of 2024 Products Sales and Distribution Agreement, the transactions contemplated thereunder and the New Transaction 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 2024 Products Sales and Distribution Agreement, the transactions contemplated thereunder and the New Transaction 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
Independent Non-executive Directors					
Chan Philip Ching Ho	Long	–	2,400,000	2,400,000	0.09%
Non-executive Directors					
Ma Yuchuan	Long	–	–	–	–
Wang Hui	Long	–	–	–	–
Kang Jian	Long	–	–	–	–
Executive Director					
Wang Wah Chi, Raymond	Long	5,600,000	9,000,000	14,600,000	0.58%

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

Name	Capacity	Position	Number of shares held	Approximate% of the issued share capital of the Company
Huada Semiconductor Co., Ltd	Beneficial owner	Long	706,066,000	28.29%
China Electronics Corporation	Interest of controlled corporation	Long	706,066,000	28.29%

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 subsidiaries of CEC group (whereas CEC is the indirect substantial shareholder of the Company) as shown below:

Name of Director	Positions held
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 2022 (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 2022, 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:

Name	Qualification
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 2022, 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 5 December 2023 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) and the Company (www.solomon-systech.com) from the date of this circular up to and including 20 December 2023:

- (a) the letter from the Independent Financial Adviser – Sorrento Capital Limited;
- (b) the letter from the Independent Board Committee as set out in this circular;
- (c) the 2024 Products Sales and Distribution Agreement;
- (d) the written consent referred to in the section headed “Expert and consent” in this Appendix; and
- (e) the 2021 Products Sales and Distribution Agreement.

NOTICE OF EXTRAORDINARY GENERAL MEETING



**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 2:30 p.m. on Wednesday, 20 December 2023, 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 5 December 2023 unless otherwise specified.

ORDINARY RESOLUTION

“**THAT** the 2024 Products Sales and Distribution Agreement and the annual caps for the three years ending 31 December 2024, 2025 and 2026 of US\$65 million, US\$75 million and US\$85 million, respectively, be and are hereby approved; and the board of directors of the Company be and is hereby authorized to take all actions necessary or expedient in its opinion to implement and/or give effect to the 2024 Products Sales and Distribution Agreement.”

On behalf of the Board

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

WANG Wah Chi, Raymond

Chief Executive Officer

Hong Kong, 5 December 2023

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. Chan Chi Kong, Dr. Chan Philip Ching Ho and Dr. Kwok Hoi Sing .

NOTICE OF EXTRAORDINARY GENERAL MEETING

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 17/F, Far East Finance Centre, 16 Harcourt Road, 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, 15 December 2023 to Wednesday, 20 December 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 pm on Thursday, 14 December 2023.
- (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) and the Company (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) and the Company (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 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong or by sending an email to the Company’s Hong Kong Share Registrar at **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.