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**SOLOMON  
SYSTECH**

## **SOLOMON SYSTECH (INTERNATIONAL) LIMITED**

**晶門半導體有限公司**

*(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 2878)*

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

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

Reference is made to (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 term of three years from 1 January 2021 to 31 December 2023; and (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.

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.

#### **LISTING RULES IMPLICATIONS**

As the date of this announcement, CEC, through its wholly-owned subsidiary, Huada, holds indirectly 706,066,000 Shares, representing approximately 28.31% 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.

### **DESPATCH OF CIRCULAR**

A circular containing, inter alia, (i) further details of the Second Supplemental Agreement and the Revised Caps; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Second Supplemental Agreement and the Revised Caps; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Second Supplemental Agreement and the Revised Caps; and (iv) a notice convening the EGM of the Company, will be despatched to the Shareholders. As additional time is required to prepare the relevant information to be included in the circular, it is expected that the circular will be despatched to the Shareholders on or before 7 June 2022.

### **BACKGROUND**

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 term of three years from 1 January 2021 to 31 December 2023; and (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.

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.

Further information regarding the Second Supplemental Agreement to the Existing Products Sales and Distribution Agreement (as amended by the First Supplemental Agreement) is set out below.

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

### 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

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 has been revised to the proposed revised caps (the “**Revised Caps**”) as follows:

#### Financial year

	<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 revising the Existing Annual Caps and the basis for determining the Revised Caps

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

Pursuant to the Existing Products Sales and Distribution Agreement (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 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 expectation that the orders received by the Group for the Products will continue to increase with a higher growth rate than the Group's original forecast 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) in light of 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.

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 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 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.

## 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.

## INFORMATION OF 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\*), a wholly-owned subsidiary of 中國電子有限公司 (China Electronics Co., Ltd\*) 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.\*), 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;
- (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.

## **LISTING RULES IMPLICATIONS**

As the date of this announcement, CEC, through its wholly-owned subsidiary, Huada, holds indirectly 706,066,000 Shares, representing approximately 28.31% 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.

## **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.

## DESPATCH OF CIRCULAR

A circular containing, inter alia, (i) further details of the Second Supplemental Agreement and the Revised Caps; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Second Supplemental Agreement and the Revised Caps; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Second Supplemental Agreement and the Revised Caps; and (iv) a notice convening the EGM of the Company will be despatched to the Shareholders. As additional time is required to prepare the relevant information to be included in the circular, it is expected that the circular will be despatched to the Shareholders on or before 7 June 2022.

## DEFINITIONS

“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*), 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.*) (formerly known as 深圳中電國際信息科技有限公司 (CECI Technology Co., Ltd.*)), a company established in the PRC and an indirect subsidiary of the CEC, and a connected person of the Company;
“Company”	Solomon Systech (International) Limited, a company incorporated in Cayman Islands with limited liability and whose shares are listed and traded on the main board of the Stock Exchange. Shares of the Company are ordinary shares of HK\$0.10 each in the share capital of the Company;
“connected persons”	has the same meaning as ascribed to it under the Listing Rules;
“Director(s)”	director(s) of the Company;

“EGM”	the extraordinary general meeting of the Company to be convened for, inter alia, the approval of the Second Supplemental Agreement and the Revised Caps;
“Existing Annual Caps”	has the meaning as ascribed to it under the section headed “Revision of Annual Caps in respect of the Products Sales and Distribution Transactions – 1. Second Supplemental Agreement and Revised Caps” in this announcement;
“Existing Products Sales and Distribution Agreement”	the agreement dated 22 October 2020 entered into between the Company and CEACI governing the terms and conditions for the appointment of CEACI as one of the non-exclusive authorized distributors of the Company to sell and distribute within the Territory for the three years ending 31 December 2023, details of which are set out in the 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;
“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 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;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Products Sales and Distribution Transactions”	the transactions as contemplated under the Existing Products Sales and Distribution Agreement in relation to the sales and distribution of the Products of the Group within the Territory;



“PRC”	the People’s Republic of China;
“Products”	IC and driver products of the Group;
“Revised Caps”	has the meaning as ascribed to it under the section headed “Revision of Annual Caps in respect of the Products Sales and Distribution Transactions – 1. Second Supplemental Agreement and Revised Caps” in this announcement;
“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);
“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; and
“%”	per cent.

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

Hong Kong, 6 May 2022

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

\* For identification purposes only