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SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2878)

**CONNECTED TRANSACTION
AND
CONTINUING CONNECTED TRANSACTION**

INTRODUCTION

The Board of the Company announces the following:

- (A) a connected transaction (“CT”) - HES and SSL (a wholly-owned subsidiary of the Company) entered into a licence agreement (the “Licence Agreement”) dated 25 November 2011 in connection with the grant of the Licence (as defined below) by HES to SSL and its subsidiaries; and
- (B) a continuing connected transaction (“CCT”) - WE3 (an indirect wholly-owned subsidiary of the Company) and SFCCL entered into a master services agreement (the “Master Agreement”) dated 25 November 2011 in connection with the provision of the design engineering development services (the “Engineering Services”) by WE3 Group to SFCCL for the three years ending 31 December 2013 .

The Company understands that 中國電子信息產業集團有限公司 (China Electronic Corporation**) (“CEC”), the substantial shareholder of the Company, is a state-owned information technology conglomerate directly under the administration of the central government of the PRC and that CEC is holding:

- (i) 50% of CIDC and HES is a subsidiary of CIDC; and
- (ii) 100% of SED and SFCCL is an indirect subsidiary of SED.

HES and SFCCL are therefore associates of CEC and connected persons of the Company. Accordingly, the CT and CCT constitute a connected transaction and a continuing connected transaction of the Group, respectively, under Chapter 14A of the Listing Rules.

As one or more of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) of each of the CT and CCT are more than 0.1% and all of the relevant percentage ratios are less than 5%, the CT and CCT are subject to the reporting and announcement

requirements but are exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INFORMATION ON THE CONNECTED PARTIES

HES is principally engaged in the development of solutions in EDA tools, high-end SoC solutions and one stop design manufacturing services. HES is a subsidiary of CIDC.

CIDC is a state-owned IC design house, of which 50% is owned by CEC and 50% owned by 國家開發投資公司 (The State Development and Investment Corporation**) ("SDIC"). CIDC's business portfolios cover design, system integration, testing of IC chips/ modules for smart cards, information-security, consumer electronics, telecommunication and high-tech electronic products, as well as development of EDA tools.

SFCCL is a mobile communication enterprise in the PRC principally engaged in mobile phone manufacturing. SFCCL is an indirect subsidiary of SED.

(A) DETAILS OF THE CT

Date

25 November 2011

Parties

- (1) HES
- (2) SSL

The Licence Agreement and Consideration

HES shall grant to SSL and its subsidiaries a non-exclusive worldwide licence (the "Licence") to install and execute certain IC design EDA tools for internal use and the development of SSL's own products for an aggregate consideration ("Consideration") of CNY3,900,000 (approximately HK\$4,777,000) on the following key terms:

- (i) duration: for a period of three years from 30 October 2011 to 29 October 2014; and
- (ii) payment: by three equal cash installments of CNY1,300,000 (approximately HK\$1,592,000) each. The first installment is payable within 30 days after the effective date of the Licence Agreement and second and third installments will be payable by 30 October 2012 and 2013, respectively.

The Consideration was determined after arm's length negotiations between HES and SSL and the Directors (including the independent non-executive Directors) consider the terms and conditions of the Licence Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole. The Directors approved the Licence Agreement with no member abstaining for the reason of having a material interest in the transaction thereunder.

Reasons for and benefit of the Licence Agreement

HES is principally engaged in the development of solutions in EDA tools, high-end SoC solutions and one stop design manufacturing services. The Group has been using the

EDA tools from HES (or its predecessor company under CIDC Group) since 2001 and considers the EDA tools fit its technology development in a cost-effective manner.

(B) DETAILS OF THE CCT

Date

25 November 2011

Parties

- (1) SFCCL
- (2) WE3

Engineering Services and Master Agreement

WE3 Group has been providing the Engineering Services to SFCCL on a project basis. WE3 Group and SFCCL entered into an agreement ("Specific Agreement") with respect to the Engineering Services for each specific mobile phone model and the revenue consists of (i) the product development charge which is payable in cash by reference to certain milestones (the "NRE") and (ii) a royalty in cash based on the end sales result of the end-customer(s) of SFCCL. The NRE portion of work is usually delivered within 6-12 months by WE3 Group and the NRE be recognized in the book of WE3 Group accordingly. However, the royalty portion is variable depending on the end sales results of the end-product(s) launched by the end-customer(s) of SFCCL. Accordingly, WE3 Group may or may not be able to receive any royalty for a specific phone model. Historically, certain royalty receipt has extended for a period of approximately 3 years from the date of the Specific Agreement.

Pursuant to the Master Agreement, WE3 Group shall provide the said Engineering Services to SFCCL based on the terms of the Specific Agreements from 1 January 2011 for a period of three years ended 31 December 2013.

Historical transaction figures

The historical transaction figures for the provision of the Engineering Services for the three years ended 31 December 2010 and the ten months ended 31 October 2011 are as follows:

Year when the Specific Agreement was signed	For the year ended 31 December			Ten months ended 31 October
	2008 (US\$'000)	2009 (US\$'000)	2010 (US\$'000)	2011 (US\$'000)
2008	117	610	245	40
2009		95	228	155
2010			170	192
2011				18
Total	117	705	643	405

Reference is made to the disclosure of interests Form 2 filed by CEC on 24 June 2009 notifying the Company that CEC has acquired in total 10.06% of the Company's shares on Stock Exchange since 22 June 2009. Although CEC has become a substantial shareholder of the Company with effect from 22 June 2009, being a state-owned enterprise, it is an investor in the Company and is not involved in the operations of the business of the Group. The Company understands that CEC's equity interest in the Company only represents a very minute part of its investment. CEC did not have any representation in the Board until 11 October 2010 when three non-executive Directors nominated by CEC were appointed.

All of the relevant percentage ratios of this CCT are less than 5% (as defined under Rule 14.07 of the Listing Rules). Due to an inadvertent oversight and certain stream of income originated from the Specific Agreements signed before CEC became a substantial shareholder of the Company, the Company has overlooked that the historical transaction figures were more than 0.1% and has not made any prior announcement or reporting in relation to the CCT.

New annual caps

Based on the signed Specific Agreements, market growth, resources and the potential opportunities available, the Company estimates that the transaction amounts for the CCT shall not exceed the following amounts and the same which have accordingly been set as the annual caps for the CCT for the three years ending 31 December 2013 will be determined as follows:

	For the year ending 31 December		
	2011 (US\$'000)	2012 (US\$'000)	2013 (US\$'000)
New annual caps ⁽ⁱ⁾	1,000	1,200	1,500

Note:

(i) The new annual caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group.

The CCT was entered into in the ordinary and usual course of business of the Group. The terms and conditions of the CCT and the Master Agreement (including the said new annual caps) were determined after arm's length negotiations between SFCCL and WE3 and the Directors (including the independent non-executive Directors) consider the terms and conditions of the CCT and the Master Agreement (including the said annual caps) are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole. The Directors approved the CCT and the Master Agreement with no member abstaining for the reason of having a material interest in the transaction thereunder.

Reasons for and benefit of the Master Agreement

SFCCL has been a long term customer of WE3. SFCCL was previously a joint venture between a renowned electronics manufacturer Royal Dutch Philips Electronics Ltd ("Philips") and SED and it is now one of the key suppliers of handsets to Philips. It is of commercial benefit to the Group to be a service provider of SFCCL and to indirectly contribute to the handset business of Philips.

INFORMATION ON THE GROUP, SSL AND WE3 GROUP

SSL and the Group are principally engaged in the design, development and sales of proprietary IC and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs, consumer electronics products, industrial appliances and green energy applications such as LED lighting.

WE3 Group is principally engaged in the design, development and distribution of handsets solutions.

LISTING RULES IMPLICATIONS

The Company understands CEC, the substantial shareholder of the Company, is a state-owned information technology conglomerate directly under the administration of the central government of the PRC and that CEC is holding:

- (i) 50% of CIDC and HES is a subsidiary of CIDC; and
- (ii) 100% of SED and SFCCL is an indirectly held subsidiary of SED.

HES and SFCCL are therefore associates of CEC and connected persons of the Company. Accordingly, the transaction under the Licence Agreement and the Engineering Services constitute a connected transaction and a continuing connected transaction, respectively, under Chapter 14A of the Listing Rules.

As one or more of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) of each of the CT and CCT are more than 0.1% and all of the relevant percentage ratios are less than 5%, the CT and CCT are subject to the reporting and announcement requirements but are exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

TERMS USED IN THIS ANNOUNCEMENT

Unless the context otherwise requires, terms used in this announcement shall have the meanings set out below:

“Board”	the board of Directors
“CIDC”	中國華大集成電路設計集團有限公司 (China Integrated Circuit Design (Group) Corp., Ltd.**), a company established in the PRC
“CIDC Group” “Company”	CIDC and its subsidiaries 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

“CNY”	Chinese Yuan, the lawful currency of PRC
“Director(s)”	director(s) of the Company (including independent non-executive directors)
"EDA"	Electronic Design Automation
“Group”	the Company and its subsidiaries
“HES”	北京華大九天軟件有限公司 (Beijing Huada Empyrean Software Co., Ltd.**), a company established in the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
"IC"	integrated circuits
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“PRC”	the People’s Republic of China
“SED”	深圳桑達電子集團有限公司 (SED Electronics Group Co., Ltd.**), a company established in the PRC
“SED Group”	SED and its subsidiaries
“SFCCL”	深圳市桑菲消費通信有限公司 (Shenzhen Sang Fei Consumer Communications Co., Ltd.**), a company established in the PRC
"SoC"	System on Chip
“SSL”	Solomon Systech Limited, a company incorporated in Hong Kong and the major wholly-owned operating subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
“US\$”	the United States Dollars, the lawful currency of the United States of America
“WE3”	WE3 Technology Company Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“WE3 Group”	WE3 and its subsidiaries

*** for identification purpose only*

Conversion of CNY into HK\$ is based on the exchange rate of CNY0.8164 for every HK\$1 and conversion of US\$ into HK\$ is based on the exchange rate of HK\$7.8 for every US\$1.

The use of the exchange rates above is used in this announcement only and for illustration purpose only; no representation is made or given that any amount in any currency referred to above can be converted at such rate or at any other rate.

By Order of the Board
SOLOMON SYSTECH (INTERNATIONAL) LIMITED
FUNG Lui Kit Har, Keziah
Company Secretary

Hong Kong, 25 November 2011

As at the date of this announcement, the Board comprises (a) Executive Directors - Dr. LEUNG Kwong Wai (Managing Director) and Mr. LAI Woon Ching; (b) Non-executive Directors - Dr. LAM Pak Lee (Mr. SHEU Wei Fu as his alternate), Mr. LI Xiaochun, Mr. LAI Weide and Mr. ZHAO Guiwu; and (c) Independent Non-executive Directors - Mr. SUN, Patrick (Chairman), Mr. CHOY Kwok Hung, Patrick, Mr. WONG Yuet Leung, Frankie and Mr. YIU Joseph Tin-chong.