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SOLOMON SYSTECH (INTERNATIONAL) LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2878)

CONTINUING CONNECTED TRANSACTION
Product Sales and Distribution
(Supplemental Announcement)

Reference is made to the announcement (the “Ann-160217”) of Solomon Systech (International) Limited (the “Company”) dated 16 February 2017 in connection with a master agreement entered into between CEACI and the Company (“Master Agreement”) whereby CEACI is appointed as one of the non-exclusive authorized distributors of the Group in the PRC to sell and distribute the products of the Group within Mainland China and Hong Kong (the “Territory”).

Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as those defined in the Ann-160217.

In addition to the information disclosed in the Ann-160217, the Company would like to provide further details to the shareholders of the Company regarding (i) the pricing policy; and (ii) the internal control mechanism in relation to the Master Agreement and the Disty Agreement.

PRICING BASIS & POLICY

The Group is principally engaged in the design, development and sales of proprietary integrated circuits (“IC”) products and system solutions. The prices for the Products are determined in accordance with the production costs, resources (effort that has to spend on product application), technology requirements (resolution, speed, special new features, etc.) and prevailing market prices of similar products (if any) offered by competitors with reference to the stage of product life cycle (e.g. new to market or not).

The Products being sold by the Group consist of different types of IC for different applications (e.g. smartphones, tablets, PC monitors, notebooks, televisions, etc.), display sizes, e.g. small (below 13”), medium (13” to 21”) and large (over 21”) and resolutions (HD, FHD, etc.), each with a different engineering specification and bill-of-materials, and accordingly, different production cost and sales prices. For example, the price of a fully integrated driver IC used in smartphones, which is small but compact and requires a more advanced technology, is in general higher than that of a driver IC for large displays.

The Group shall provide an internal reference price table for the Products to CEACI and other distributors in the same Territory. Taking into account the quality of the Products and quantity of the orders, the gross profit margin of each IC is expected to be in the range of 15-40% to generate an average gross profit margin of no less than 30% as a whole.

INTERNAL CONTROL FOR THE GROUP'S CONTINUING CONNECTED TRANSACTIONS

In order to ensure that the prices of the Products are fair and reasonable, and are in line with the market average, the Group adopts the following methods and procedures:

- (a) The relevant personnel of the business department of the Company will conduct regular checks to review and assess whether the transactions contemplated under the relevant continuing connected transactions ("CCT") are conducted in accordance with the terms of its respective agreement and will also regularly update the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policy: (i) both the sales team and the marketing team will from time to time (on a roughly monthly basis and/or prior to price negotiation) gather market intelligence by way of research and investigation to ascertain the quality of the Products compared to similar products in the market and the reference price of each type of the Products in the market; (ii) the operations team will regularly review, monitor and benchmark with the average industry gross profit margin in respect of the sales of the Products; (iii) the Company also conducts monthly and quarterly reviews of the sales, margin, market and profitability of the Products and ensures the transactions are within the annual cap; (iv) the Group would also work closely with customers with a view to obtaining information on the demand and inventory situation of the customers. The Company would then adjust or negotiate the prices of the Products as and when necessary to ensure price fairness.
- (b) Internal audit of the Company conducts periodic audit reviews of the CCT of the Company, to consider (i) effective implementation of the pricing policies and the payment methods, evaluation of balances of annual caps; and (ii) identification of management weaknesses, and recommendation of improvement measures to ensure that the internal control measures in respect of the CCT remain complete and effective and where any weaknesses are identified, the Company will take measures to address them as soon as practicable.
- (c) Independent non-executive directors of the Company will review the transactions contemplated under the CCT of the Company pursuant to Listing Rule 14A.55, and confirm in the annual report whether the transactions have been entered into:
 - in the ordinary and usual course of business of the listed issuer's group;
 - on normal commercial terms or better; and
 - according to the agreement governing the transactions on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.
- (d) The independent auditor of the Group will also conduct an annual review on the pricing terms and annual caps thereof.

Saved as disclosed above, all other information set out in the Ann-160217 remains unchanged.

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

Hong Kong, 21 February 2017

As at the date of this announcement, the Board comprises (a) Executive Directors – Dr. Yeh Tsui Chi (Chief Executive Officer) and Mr. Lo Wai Ming; (b) Non-executive Directors - Mr. Li Rongxin (Chairman), Dr. Li Jun and Mr. Zhao Guiwu; and (c) Independent Non-executive Directors - Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Mr. Yiu Tin Chong, Joseph.