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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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

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

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



A letter from the Board is set out on pages 6 to 24 of this circular and a letter from the Independent Board Committee is set out on pages 25 to 26 of this circular.

A letter from Gram Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 42 of this circular.

A notice convening an EGM of Solomon Systech (International) Limited (the “Company”) to be held at 4:30 p.m. on Friday, 29 December 2017 at 6/F, No. 3 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong is set out on pages 47 to 49 of this circular. In the event you are not able to attend the EGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time 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.

11 December 2017

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DEFINITIONS

In this circular, unless the context requires otherwise, the expressions as stated below will have the following meanings:

“8.5G”	the 8.5th Generation TFT-LCD devices
“Annual Cap(s)”	the proposed annual cap(s) of the transactions under each of the Renewed LCD Products Sales Agreement, the Renewed Semiconductor Products Sales Agreement and the Renewed Products Sales and Distribution Agreement for the relevant years as set out in the section headed “II. Continuing Connected Transactions” in the letter from the Board contained in this circular
“Articles of Association”	the articles of association of the Company
“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 CECI, 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, a substantial shareholder of the Company, and a connected person of the Company
“CECI”	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 CEC, and a connected person of the Company
“Company”	Solomon Systech (International) Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed and traded on the main board of the Stock Exchange
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules

DEFINITIONS

“Continuing Connected Transactions”	the continuing connected transactions of the Company under the Renewed LCD Products Sales Agreement, the Renewed Semiconductor Products Sales Agreement and the Renewed Products Sales and Distribution Agreement, details of which are set out in the section headed “II. Continuing Connected Transactions” in the letter from the Board contained in this circular
“Director(s)”	the director(s) of the Company
“Disty Agreement”	a standard Solomon Systech component distribution agreement dated 20 November 2017 between SSL and CEACI
“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held on Friday, 29 December 2017 at 4:30 p.m. at 6/F, No. 3 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong or any adjournment thereof, to consider and, if appropriate, to approve the resolutions contained in the notice of the meeting which is set out on pages 47 to 49 of this circular
“Existing LCD Products Sales Agreement”	the master agreement dated 2 March 2012 (as supplemented by supplemental agreements dated 30 August 2012 and 1 September 2014, respectively) entered into between the Company and Panda-LCD, details of which are set out in the announcement and circular of the Company dated 1 September 2014 and 19 September 2014, respectively
“Existing Products Sales and Distribution Agreement”	the agreement dated 16 February 2017 between CECI and the Company in respect of the sales and distribution of the Products, details of which are set out in the announcement of the Company dated 16 February 2017
“Existing Semiconductor Products Sales Agreement”	the master agreement dated 15 April 2015 between the Company and Panda-FPD, details of which are set out in the announcement and circular of the Company dated 15 April 2015 and 13 May 2015, respectively
“Gram Capital” or “Independent Financial Adviser”	Gram 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 Continuing Connected Transactions

DEFINITIONS

“Group”	the Company and its subsidiaries
“HK” or “Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	HK dollars, the lawful currency of HK
“Huadong Electronics”	南京華東電子信息科技股份有限公司 (Nanjing Huadong Electronics Information & Technology Co., Ltd. [#]), a company established in the PRC and whose shares are listed and traded on Shenzhen Stock Exchange. It is also the major shareholder of Panda-FPD, 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 Messrs. Leung Heung Ying, Sheu Wei Fu and Yiu Tin Chong, Joseph
“Independent Shareholders”	Shareholders other than CEC and its associates
“Latest Practicable Date”	8 December 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“LCD”	liquid crystal display
“LCD Products”	LTFT-LCD driver ICs
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LTFT”	large thin film transistor
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers
“NEIIC”	南京中電熊貓信息產業集團有限公司 (Nanjing Electronics Information Industrial Corporation [#]), a PRC state-owned enterprise, and a connected person of the Company

DEFINITIONS

“Panda-FPD”	南京中電熊貓平板顯示科技有限公司 (Nanjing CEC Panda Flat Panel Display Technology Co., Ltd. [#]), a company established in the PRC and a subsidiary of Huadong Electronics, and a connected person of the Company
“Panda-LCD”	南京中電熊貓液晶顯示科技有限公司 (Nanjing CEC Panda LCD Technology Co., Ltd. [#]), a company established in the PRC, and a connected person of the Company
“PRC”	the People’s Republic of China
“Products”	IC and drivers products of the Group
“Renewed LCD Products Sales Agreement”	the agreement dated 20 November 2017 entered into between the Company and Panda-LCD for the sales of the LCD Products
“Renewed Products Sales and Distribution Agreement”	the agreement dated 20 November 2017 between CECI and the Company in respect of the sales and distribution of the Products
“Renewed Semiconductor Products Sales Agreement”	the agreement dated 20 November 2017 entered into between the Company and Panda-FPD for the sales of the Semiconductor Products
“Seller”	Microchip Technology Incorporated, the seller stated in the announcement of the Company dated 1 November 2016 entitled “The Purchase of the Target Assets and Semiconductor Products”
“Semiconductor Products”	semiconductor IC products
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	shares of the Company which are ordinary shares of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s) of the Company
“SSL”	Solomon Systech Limited, a company incorporated in Hong Kong with limited liability and is the major wholly-owned operating subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“substantial shareholder(s)”	has the same meaning as ascribed to it under the Listing Rules
“Territory”	Mainland China and Hong Kong
“TFT”	thin film transistor
“US\$”	the United States Dollars, the lawful currency of the United States of America

for identification purpose only

LETTER FROM THE BOARD



**SOLOMON
SYSTECH**

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

Directors:

Dr. Yeh Tsuei Chi (*Chief Executive Officer*)

Mr. Lo Wai Ming

Mr. Li Rongxin (*Chairman*)*

Dr. Li Jun*

Mr. Zhao Guiwu*

Mr. Leung Heung Ying**

Mr. Sheu Wei Fu**

Mr. Yiu Tin Chong, Joseph**

* *Non-executive Directors*

** *Independent Non-executive Directors*

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Cayman Islands

Principal place of business

in Hong Kong:

6/F, No.3 Science Park East Avenue

Hong Kong Science Park

Shatin, New Territories

Hong Kong

11 December 2017

To the Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

Reference is made to the announcement of the Company dated 20 November 2017 in relation to, inter alia, the Renewed LCD Products Sales Agreement with Panda-LCD and the Renewed Semiconductor Products Sales Agreement with Panda-FPD for the three years ending 31 December 2020 as well as the Renewed Products Sales and Distribution Agreement for the three years ending 31 December 2019.

The purpose of this circular is to give the Shareholders the notice of EGM and to provide Shareholders with further information in respect of the Continuing Connected Transactions.

The Continuing Connected Transactions are conditional upon the Independent Shareholders' approval at the EGM to be convened. Details of the Continuing Connected Transactions are set out below.

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II. CONTINUING CONNECTED TRANSACTIONS

A. Renewal of Sales of LCD Products

Reference is made to the announcement and circular of the Company dated 1 September 2014 and 19 September 2014, respectively, in relation to the existing transactions under the Existing LCD Products Sales Agreement in respect of the sales of the LCD Products by the Group to Panda-LCD for the three years ending 31 December 2017. The Existing LCD Products Sales Agreement will expire on 31 December 2017. As disclosed in the announcement of the Company dated 20 November 2017, the Company has entered into the Renewed LCD Products Sales Agreement with Panda-LCD to cover continuing connected transactions for the three years ending 31 December 2020.

The transactions under the Renewed LCD Products Sales Agreement are conditional upon the Independent Shareholders' approval at the EGM to be convened.

Details of the terms of the Renewed LCD Products Sales Agreement

A summary of the relevant terms of the Renewed LCD Products Sales Agreement is set out below:

Date of Renewed LCD Products Sales Agreement	20 November 2017
Parties	Panda-LCD and the Company
Nature of transaction	The sales of the LCD Products by the Group to Panda-LCD
Term	Starting on 1 January 2018 and ending on 31 December 2020, subject to the approval by the Independent Shareholders.
Pricing basis and policy	The Group shall supply the LCD Products to Panda-LCD at the prevailing market price, which shall be determined according to the following methods and procedures: (i) the sales team and marketing team of the Group would regularly gather market intelligence by way of research and investigation to ascertain the quality of the LCD Products compared to similar products in the market and the reference price of each type of the LCD Products in the market;

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- (ii) the Group would regularly review, monitor and benchmark with the industry the gross profit margin in respect of the sale of the LCD Products;
- (iii) the Group would also send sales engineers on-site to work closely with the buyer with a view to obtaining information on the demand and inventory situation of the buyer and reporting the same to the Company; and
- (iv) with reference to the production costs of the LCD Products of different specifications, the Company would mark up the cost of the LCD Products on a “cost-plus” basis with reference to the industrial gross profit margin, and negotiate with the buyer, on an arm’s length basis, to determine the final prices of the LCD Products.

The Board considers that the said 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

Payments for the LCD Products ordered shall be made by telegraphic transfers through bank within such time and in such manner in accordance with normal market practices.

Annual Caps and actual sales figures

The Annual Caps proposed for years 2018, 2019 and 2020 are US\$10 million, US\$15 million and US\$20 million, respectively (note). All the Annual Caps are estimated with reference to the existing selling prices of the LCD Products, possible price erosion of such LCD Products as well as the expected demand for the LCD Products, having taken into account the orders received and expected to be received from Panda-LCD from September to November 2017 as well as the Group’s estimated percentage share of Panda-LCD’s total supply of related products in the market.

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The actual sales amount to Panda-LCD by the Group under the Existing LCD Products Sales Agreement were as follows:

For the nine months ended 30 September 2017 (unaudited) US\$'000	For the year ended 31 December 2016 (audited) US\$'000	For the year ended 31 December 2015 (audited) US\$'000
2,222	3,784	12,455

The annual sales for 2017 will be within the annual cap under the Existing LCD Products Sales Agreement for the year ending 31 December 2017. The existing annual caps applicable for the years 2015, 2016 and 2017 are US\$16 million, US\$18 million and US\$20 million, respectively.

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

Others

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

More about the Annual Caps

The LCD Products supplied by the Group to Panda-LCD since March 2012 have proven to have met all the customer satisfaction requirements of Panda-LCD. The proposed 2018, 2019 and 2020 Annual Caps are prepared by extending the latest purchase indication from Panda-LCD to the Group for the LCD Products. Assumptions used include:

- Panda-LCD will further develop their business relationship with the Group following the recent issue of a notice by the CEC group to all its associates to encourage them to foster business cooperation and investment strategy in a synergic manner;
- the Group can maintain and/or increase the competitiveness of the LCD Products;
- Panda-LCD is able to keep its demand momentum for the LCD Products pursuant to the new purchase indication from Panda-LCD to the Group for the LCD Products in 2017, such that the demand momentum for the LCD Products will extend to 2018, 2019 and 2020. If the products of Panda-LCD are less competitive than expected, its demand for the Products and thus the transaction amount of the Continuing Connected Transactions will be affected;

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- the current demand growth plan of Panda-LCD based on the sales forecast of its products can be realized;
- Panda-LCD will purchase certain new LCD Products pursuant to the Group's product roadmap and product portfolio;
- the favourable business opportunities anticipated for Panda-LCD and the Group can be realized; and
- with an increasing trend of the sales of LCD Products in 2017, the Group estimates that, for the year ending 31 December 2018, its sales for the LCD Product could be double or more of the sales in 2017, with a year-on-year growth of US\$5 million in respect for the two years thereafter.

Further, as a technology company, the Company is committed to investing in the development of new technologies and also the enhancement of the features of its existing products. Thus, with research and development costs being sunk costs, the Board considers that an expansion of sales could contribute to a surge of profits for the Group. The Group has been suffering a loss since the year ended 31 December 2014. As the relevant selling prices of the products sold to Panda-LCD are fair and reasonable and are in line with the market average, along with the increasing trend mentioned above, the Board considers it to be in the interest of the Company and its shareholders as a whole to further expand its sales with Panda-LCD under the Renewed LCD Products Sales Agreement.

Reasons for and benefits of the Renewed LCD Products Sales Agreement

The Existing LCD Products Sales Agreement has strengthened the business relationship between the Group and Panda-LCD. Through the Existing LCD Products Sales Agreement, Panda-LCD has recognised the Group as a reliable supplier of competitive products to meet the needs of its business; while the Group has gained a high volume customer and enhanced the business development of its LTFT-LCD driver ICs.

In order to ensure that the abovementioned pricing policy in respect of this Continuing Connected Transaction is complied with, the business units would meet with the business operation departments and the relevant sales team roughly on a weekly or ad hoc basis, and the pricing of the relevant products (determined in accordance with the pricing policy) would be reviewed and approved by the relevant head of business unit or the business operation department (as the case may be) at such meetings as and when necessary. Any unusual changes in the pricing of the products would also be reported by the business units and/or business operation departments to the management of the Company at monthly meetings and at the Company's staff meetings held on a quarterly basis.

Accordingly, the Directors (including the independent non-executive Directors after considering the advice of Gram Capital) consider that it is in the interests of the Group to enter into the Renewed LCD Products Sales Agreement to cover years 2018 to 2020

LETTER FROM THE BOARD

with the respective Annual Caps, and that the terms of the Renewed LCD Products Sales Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The transactions under the Renewed LCD Products Sales Agreement were approved by the Board on 20 November 2017, with Dr. Li Jun, Mr. Li Rongxin and Mr. Zhao Guiwu, who are officers of the CEC group, abstaining from voting on the relevant resolutions of the Board at such meeting. Save as disclosed above, none of the Directors has any material interest in the transactions under the Renewed LCD Products Sales Agreement and has to abstain from voting for the reason of having a material interest in such transactions.

Listing Rules implications

The Company understands that CEC, an indirect substantial shareholder and connected person 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) 21.14% of Panda-LCD directly; and
- (ii) 49.66% of Panda-LCD through NEIIC, a subsidiary of CEC.

Panda-LCD is therefore an associate of CEC and a connected person of the Company. Accordingly, the sales transaction between the Group and Panda-LCD pursuant to the Renewed LCD Products Sales Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) for the transaction under the Renewed LCD Products Sales Agreement (on the aggregate basis with the transactions under the Renewed Semiconductor Products Sales Agreement) exceed 5% and HK\$10 million, such transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

CEC and its associates will be required to abstain from voting at the EGM on the resolutions to be proposed in relation to the Renewed LCD Products Sales Agreement.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the Continuing Connected Transactions. Gram Capital has been appointed as the independent financial adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders on the Renewed LCD Products Sales Agreement.

The views of the Independent Board Committee on the Renewed LCD Products Sales Agreement after considering the advice from Gram Capital are set out in the Letter from the Independent Board Committee on pages 25 to 26 of this circular.

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Information on the parties

Panda-LCD is principally engaged in the manufacturing of LTFT-LCD panels and modules. Its major products include panels and modules for LCD monitors and televisions.

NEIIC is a state-owned electronics group. Its business portfolio covers electronic equipment, electronic components, consumer electronics products and modern service industry. NEIIC is a subsidiary of CEC.

The Group is principally engaged in the design, development and sales of proprietary IC 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.

B. Renewal of Sales of Semiconductor Products

Reference is made to the announcement and circular of the Company dated 15 April 2015 and 13 May 2015, respectively, in relation to the existing transactions under the Existing Semiconductor Products Sales Agreement in respect of the sales of the Semiconductor Products by the Group to Panda-FPD for the three years ending 31 December 2017. The Existing Semiconductor Products Sales Agreement will expire on 31 December 2017. As disclosed in the announcement of the Company dated 20 November 2017, the Company has entered into the Renewed Semiconductor Products Sales Agreement with Panda-FPD to cover continuing connected transactions for the three years ending 31 December 2020.

The transactions under the Renewed Semiconductor Products Sales Agreement are conditional upon the Independent Shareholders' approval at the EGM to be convened.

Details of the terms of the Renewed Semiconductor Products Sales Agreement

A summary of the relevant terms of the Renewed Semiconductor Products Sales Agreement is set out below:

Date of Renewed Semiconductor Products Sales Agreement	20 November 2017
Parties	Panda-FPD and the Company
Nature of transaction	The sales of the Semiconductor Products by the Group to Panda-FPD
Term	Starting on 1 January 2018 and ending on 31 December 2020, subject to the approval by the Independent Shareholders

LETTER FROM THE BOARD

Pricing basis and policy

The Group shall supply the Semiconductor Products to Panda-FPD at the prevailing market price, which shall be determined according to the following methods and procedures:

- (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 Semiconductor Products compared to similar products in the market and the reference price of each type of the Semiconductor Products in the market;
- (ii) the operation team will regularly review, monitor and benchmark with the average industry gross profit margin in respect of the sales of the Semiconductor Products;
- (iii) the Group would also send sales engineers on-site to work closely with the buyer with a view to obtaining information on the demand and inventory situation of the buyer and reporting the same to the Company; and
- (iv) with reference to the production costs of the Semiconductor Products of different specifications, the Company would mark up the cost of the Semiconductor Products on a “cost-plus” basis with reference to the industrial gross profit margin, and negotiate with the buyer, on an arm’s length basis, to determine the final prices of the Semiconductor Products.

The Board considers that the said 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

Payments for the Semiconductor Products ordered shall be made by telegraphic transfers through bank within such time and in such manner in accordance with normal market practices.

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Annual Caps and actual sales figures

The Annual Caps proposed for each of the years ending 31 December 2018, 2019 and 2020 are US\$5 million, US\$10 million and US\$15 million, respectively (note). All the Annual Caps are estimated with reference to the existing selling prices of the Semiconductor Products, possible price erosion of such Semiconductor Products as well as the expected demand for the Semiconductor Products.

The actual sales amount to Panda-FPD by the Group under the Existing Semiconductor Products Sales Agreement were as follows:

For the nine months ended 30 September 2017 (unaudited) <i>US\$'000</i>	For the year ended 31 December 2016 (audited) <i>US\$'000</i>	For the year ended 31 December 2015 (audited) <i>US\$'000</i>
531	6	–

The annual sales for 2017 will be within the annual cap under the Existing Semiconductor Products Sales Agreement for the year ending 31 December 2017. The existing annual caps applicable for the years 2015, 2016 and 2017 were US\$20 million, US\$24 million and US\$60 million, respectively.

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

Others

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

More about the Annual Caps

Assumptions used in estimating the proposed 2018, 2019 and 2020 Annual Caps include:

- Panda-FPD will further develop their business relationship with the Group following the recent issue of a notice by the CEC group to all its associates to encourage them to foster business cooperation and investment strategy in a synergic manner; and

LETTER FROM THE BOARD

- the utilization of the historical caps under the Existing Semiconductor Products Sales Agreement was lower than expected as the relevant production facilities of Panda-FPD only commenced its pilot run in 2015 and was still under design and testing stage in 2016. However, since 2017, with the continuous ramp up of production capacity of Panda-FPD, there has been a significant growth in the relevant revenue as evidenced by the Group's sales track records of the Semiconductor Products over the three years ending 2017. With such an increasing trend, the Group would therefore expect to achieve the Annual Cap for 2018 and a moderate year-on-year growth of US\$5 million for the two years thereafter.

Further, as mentioned in the sub-section headed "A. Renewal of Sales of LCD Products — More about the Annual Caps" above, with research and development costs being sunk costs, the Board considers that an expansion of sales could contribute to a surge of profits for the Group. As the relevant selling prices of the products sold to Panda-FPD are fair and reasonable and are in line with the market average, along with the increasing trend mentioned above, the Board considers it to be in the interest of the Company and its shareholders as a whole to further expand its sales with Panda-FPD under the Renewed Semiconductor Products Sales Agreement.

Below are the potential risks and uncertainties:

Demand forecast of the products of Panda-FPD

- the demand growth plan of Panda-FPD based on the sales forecast of its products and the business opportunities anticipated by Panda-FPD can be realized;
- Panda-FPD is able to keep its demand momentum for the Semiconductor Products pursuant to the latest indication from Panda-FPD to the Group for the Semiconductor Products when signing the Renewed Semiconductor Products Sales Agreement that covers 2018, such that the demand momentum for the Semiconductor Products will extend to 2019 and 2020; and
- Panda-FPD will purchase certain new Semiconductor Products pursuant to the Group's product roadmap and product portfolio.

If the products of Panda-FPD are less competitive than expected, its demand for the Semiconductor Products and thus the transaction amount of the Renewed Semiconductor Products Sales Agreement will be affected.

LETTER FROM THE BOARD

The Semiconductor Product competitiveness of the Group

- the Group can maintain and/or increase the competitiveness of the Semiconductor Products.

If the Semiconductor Products of the Group are less competitive than expected in terms of quality and on-time launch, the transaction amount of the Renewed Semiconductor Products Sales Agreement will be affected.

Reasons for and benefits of the Renewed Semiconductor Products Sales Agreement

Panda-FPD is a subsidiary of Huadong Electronics and has recognised the Group as a qualified supplier of competitive products to meet the needs of its business. Through the Renewed Semiconductor Products Sales Agreement, the Group can enrich its customer portfolio with a new and high volume customer. Accordingly, the Group is able to further enhance the business development of its driver ICs. In addition, the Renewed Semiconductor Products Sales Agreement can further strengthen the business relationship between the Group and various subsidiaries under CEC.

In order to ensure that the abovementioned pricing policy in respect of this Continuing Connected Transaction is complied with, the business units would meet with the business operation departments and the relevant sales team roughly on a weekly or ad hoc basis, and the pricing of the relevant products (determined in accordance with the pricing policy) would be reviewed and approved by the relevant head of business unit or the business operation department (as the case may be) at such meetings as and when necessary. Any unusual changes in the pricing of the products would also be reported by the business units and/or business operation departments to the management of the Company at monthly meetings and at the Company's staff meetings held on a quarterly basis.

Accordingly, the Directors (including the independent non-executive Directors after considering the advice of Gram Capital) consider that it is in the interests of the Group to enter into the Renewed Semiconductor Products Sales Agreement for the three years ending 31 December 2020 with the respective Annual Caps, and that the terms of the Renewed Semiconductor Products Sales Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The transactions under the Renewed Semiconductor Products Sales Agreement were approved by the Board on 20 November 2017, with Dr. Li Jun, Mr. Li Rongxin and Mr. Zhao Guiwu, who are officers of the CEC group, abstaining from voting on the relevant resolutions of the Board at such meeting. Save as disclosed above, none of the Directors has any material interest in the transactions under the Renewed Semiconductor Products Sales Agreement and has to abstain from voting for the reason of having a material interest in such transactions.

LETTER FROM THE BOARD

Listing Rules implications

The Company understands that CEC, an indirect substantial shareholder and connected person 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 the ultimate controlling shareholder of Huadong Electronics.

Panda-FPD is a subsidiary of Huadong Electronics. Panda-FPD is therefore an associate of CEC and a connected person of the Company. Accordingly, the sales transactions between the Group and Panda-FPD pursuant to the Renewed Semiconductor Products Sales Agreement constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) for the sales transactions under the Renewed Semiconductor Products Sales Agreement (on the aggregate basis with the transactions under the Renewed LCD Products Sales Agreement) exceed 5% and HK\$10 million, such transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

CEC and its associates will be required to abstain from voting at the EGM on the resolutions to be proposed in relation to the Renewed Semiconductor Products Sales Agreement.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the Renewed Semiconductor Products Sales Agreement. Gram Capital has been appointed as the independent financial adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders on the Renewed Semiconductor Products Sales Agreement.

The views of the Independent Board Committee on the Renewed Semiconductor Products Sales Agreement after considering the advice from Gram Capital are set out in the Letter from the Independent Board Committee on pages 25 to 26 of this circular.

Information on the parties

Panda-FPD is principally engaged in the manufacturing of LCD panels and modules. Its major products include panels and modules for LCD monitors and televisions. Huadong Electronics is principally engaged in related electronics manufacturing. Its business portfolio covers quartz crystal, touch control display, magnetic materials and vacuum electronics industries. CEC is the ultimate controlling shareholder of Huadong Electronics.

The Group is principally engaged in the design, development and sales of proprietary IC 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

C. Renewal of Products Sales and Distribution

Reference is made to the announcement of the Company dated 16 February 2017 which announced that CECI and the Company entered into the Existing Products Sales and Distribution Agreement whereby CEACI was appointed as one of the non-exclusive authorized distributors of the Group to sell and distribute the Products of the Group within the Territory for the period from 16 February 2017 to 31 December 2017. The Existing Products Sales and Distribution Agreement will expire on 31 December 2017. As disclosed in the announcement of the Company dated 20 November 2017, the Company has entered into the Renewed Products Sales and Distribution Agreement with CECI to revise the existing annual cap for the year of 2017 and to cover the transactions for the two years ending 31 December 2019.

The transactions under the Renewed Products Sales and Distribution Agreement are conditional upon the Independent Shareholders' approval at the EGM to be convened.

Details of the terms of the Renewed Products Sales and Distribution Agreement

A summary of the relevant terms of the Renewed Products Sales and Distribution Agreement and the relevant arrangements is set out below:

Date of Renewed Products Sales and Distribution Agreement	20 November 2017
Parties	CECI, CEACI and the Company
Nature of transaction	CEACI is appointed as one of the non-exclusive authorized distributors of the Group to sell and distribute the Products within the Territory. The Disty Agreement was executed simultaneously between SSL and CEACI to manage the sales and distribution of the Products within the Territory and other detailed operations for promotion, product ordering and delivery cooperation.
Term	Starting on 16 February 2017 and ending on 31 December 2019, subject to the approval by the Independent Shareholders.
Pricing basis and policy	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

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 Disty Agreement and the Renewed Products Sales and Distribution Agreement.

Payment terms

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

Annual Caps and actual transaction figures

The Annual Caps proposed for each of the three years ending 31 December 2019 are US\$5 million, US\$10 million and US\$15 million, respectively (note). All the Annual Caps are estimated with reference to the forecasted selling prices of the Products, possible price erosion of such Products as well as the expected demand for the Products.

The transaction amount under the Existing Products Sales and Distribution Agreement were as follows:

For the nine months ended 30 September 2017 (unaudited)	For the year ended 31 December 2016 (audited)	For the year ended 31 December 2015 (audited)
<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
3,348	74	–

The existing annual cap for the year of 2017 was US\$3,300,000. Due to a sudden increase in business volume and failure to report increased transactions in a timely manner, the 2017 annual cap has been marginally exceeded as at 30 September 2017. Upon becoming aware of such annual cap being exceeded, the Group has ceased the transactions until the revision of the annual cap. The annual cap for the year of 2017 has been slightly revised accordingly to accommodate business needs of the Group.

LETTER FROM THE BOARD

In order to avoid occurrence of similar events in the future, the Company will strengthen the establishment of the continuing connected transactions warning system, closely monitor and regularly review the continuing connected transactions of the Group, enhance the supervision and management of continuing connected transactions, increase training for the relevant operation departments, improve the data collection system of the Group so that the Company can comply with the requirements for continuing connected transactions under the Listing Rules in a timely manner. The new Annual Cap for 2017 was established on the basis of an enhanced revenue growth during the year. The 2018 and 2019 Annual Caps are therefore extrapolated on this increased turnover trend and based on customers' forecasts and the Company's internal assessments. The management considers these Annual Caps are realistic and consistent with internal operating budgets of the Group.

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

Others

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

Reasons for and benefits of the Renewed 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 smartphones, smart TVs and other smart devices.

Reference is made to the announcement of the Company dated 1 November 2016 entitled "The Purchase of the Target Assets and Semiconductor Products", in which the Company indicated the purchases of maXTouch® semiconductor products and technology to accelerate the growth of the mobile touch business of the Group. The said purchase was completed in the year ended 31 December 2016.

Whilst CECI/CEACI was originally the major distributor of the Seller in the PRC and also the major distributor in the PRC for the maXTouch® semiconductor products, it will be beneficial for the Company as a whole to continue to engage CECI/CEACI to ensure smooth transition of the maXTouch® product distribution in the PRC and fast growth of the mobile touch business of the Company in the PRC.

LETTER FROM THE BOARD

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

In order to ensure that the abovementioned pricing policy in respect of this Continuing Connected Transaction is complied with, the business units would meet with the business operation departments and the relevant sales team roughly on a weekly or ad hoc basis, and the pricing of the relevant products (determined in accordance with the pricing policy) would be reviewed and approved by the relevant head of business unit or the business operation department (as the case may be) at such meetings as and when necessary. Any unusual changes in the pricing of the products would also be reported by the business units and/or business operation departments to the management of the Company at monthly meetings and at the Company's staff meetings held on a quarterly basis.

Accordingly, the Directors (including the independent non-executive Directors after considering the advice of Gram Capital) consider that it is in the interests of the Group to enter into the Renewed Products Sales and Distribution Agreement for the three years ending 31 December 2019 with the respective Annual Caps, and that the terms of the Renewed Products Sales and Distribution Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The transactions under the Renewed Products Sales and Distribution Agreement were approved by the Board on 20 November 2017, with Dr. Li Jun, Mr. Li Rongxin and Mr. Zhao Guiwu, who are officers of the CEC group, abstaining from voting on the relevant resolutions of the Board at such meeting. Save as disclosed above, none of the Directors has any material interest in the transactions under the Renewed Products Sales and Distribution Agreement and has to abstain from voting for the reason of having a material interest in such transactions.

Listing Rules implications

The Company understands that CECI is an indirect subsidiary of CEC (being an indirect substantial shareholder of the Company) and wholly-owns CEACI. Accordingly, CECI and CEACI are connected persons of the Company, and the transactions between CECI/CEACI and the Group constitute a continuing connected transaction of the Group 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) for the transactions under the Renewed Products Sales and Distribution Agreement exceed 5% and HK\$10 million, such transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

CEC and its associates will be required to abstain from voting at the EGM on the resolutions to be proposed in relation to the Renewed Products Sales and Distribution Agreement.

LETTER FROM THE BOARD

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the Renewed Products Sales and Distribution Agreement. Gram Capital has been appointed as the independent financial adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders on the Renewed Products Sales and Distribution Agreement.

The views of the Independent Board Committee on the Renewed Products Sales and Distribution Agreement after considering the advice from Gram Capital are set out in the Letter from the Independent Board Committee on pages 25 to 26 of this circular.

Information on the parties

CECI and its wholly-owned subsidiary CEACI have more than 30 years' experience as professional technology distributors and in providing technology services. CECI/CEACI is a distributor for 10 categories of products, including smart TV, power electronics, smart touch, security monitoring, wireless and internet, automobile electronics, communication systems, consumer electronics products, industrial control and power management.

CECI is one of the indirect subsidiaries of the CEC group.

The Group is principally engaged in the design, development and sales of proprietary IC 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.

III. RELATIONSHIP WITH THE CEC GROUP

For the year ending 31 December 2018, the aggregated Annual Cap in respect of the Continuing Connected Transactions amounts to US\$25 million, representing approximately 36.5% of the Company's revenue for the year ended 31 December 2016. Whereas for the years ending 31 December 2019 and 2020, the aggregated Annual Cap in respect of the Continuing Connected Transactions amount to US\$40 million and US\$35 million, respectively. Based on the business development plan of the Group, with the increase in overall sales, the Board believes that the aggregate revenue generated under the Continuing Connected Transactions will remain stable at approximately 36.5% for each of the three years ending 31 December 2020, when compared with the then annual revenue of the Group.

Although the CEC group is one of the major customers of the Group, the Group has generated substantial portion of its revenue through established business relationship with other independent third parties, as evidenced by its historical sales. The Company has also made plans to diversify its customer base through the development of different product mix, for instance, in respect of the TDDI (Touch and Display Driver Integration) solutions and POLED (Plastic Organic Light Emitting Diode) products, both of which developed surging needs in recent years. With the development of these innovative products, the Group is expected to develop new business relationships with new customers while at the same time expand its business relationship with its other existing customers. In light of the above, the Company considers that there is no reliance on the CEC group in respect of the relevant Continuing Connected Transactions.

LETTER FROM THE BOARD

IV. EGM AND PROXY ARRANGEMENT

The notice of the EGM is set out on pages 47 to 49 of this circular. At the EGM, resolutions will be proposed to approve the Continuing Connected Transactions.

CEC and its associates will be required to abstain from voting at the EGM on the resolutions to be proposed in relation to the Continuing Connected Transactions. To the best knowledge of the Company, as at the Latest Practicable Date, CEC, through its subsidiary Huada Semiconductor Co., Ltd., was interested in 706,066,000 Shares, representing approximately 28.5% of the total issued share capital of the Company.

Pursuant to the Listing Rules, any vote of 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof should you so wish.

V. 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.

VI. RECOMMENDATIONS

The Directors are of the opinion that the Continuing Connected Transactions are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend all Independent Shareholders and Shareholders (as the case may be) to vote in favour of all the resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

VII. GENERAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendix (General Information) on pages 43 to 46 of this circular.

Yours faithfully,
For and on behalf of
Solomon Systech (International) Limited
Dr. Yeh Tsuei Chi
Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of recommendation from the Independent Board Committee to the Independent Shareholders which has been prepared for the purpose of inclusion in this circular.



**SOLOMON
SYSTECH**

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

11 December 2017

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise you in connection with the Continuing Connected Transactions, details of which are set out in the letter from the Board contained in the circular dated 11 December 2017 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part.

As at the Latest Practicable Date, we were not aware of any relationships or interests between the Company and Gram Capital or any other parties that could be reasonably regarded as hindrance to Gram Capital’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 Continuing Connected Transactions.

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

Having considered the advice of Gram Capital and the principal factors and reasons taken into consideration by it in arriving at its advice as set out on pages 27 to 42 of the Circular, we are of the opinion that the terms of each of the Continuing Connected Transactions (including the Annual Caps) are on normal commercial terms and are fair and reasonable and that the Continuing Connected Transactions 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Renewed LCD Products Sales Agreement, the Renewed Semiconductor Products Sales Agreement and the Renewed Products Sales and Distribution Agreement (including the respective Annual Caps) and transactions contemplated thereunder proposed at the EGM.

Yours faithfully,

For and on behalf of Independent Board Committee

Leung Heung Ying

Sheu Wei Fu

Yiu Tin Chong, Joseph

Independent Non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Renewed Agreements and the transactions contemplated thereunder for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

11 December 2017

*To: The independent board committee and the independent shareholders
of Solomon Systech (International) Limited*

Dear Sir/ Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the sales of the LCD Products by the Group to Panda-LCD as contemplated under the Renewed LCD Products Sales Agreement (the “**LCD Transaction**”); (ii) the sales of the Semiconductor Products by the Company to Panda-FPD as contemplated under Renewed Semiconductor Products Sales Agreement (the “**Semiconductor Transaction**”); and (iii) appointment of CEACI as one of the non-exclusive authorized distributors of the Group to sell and distribute the Products within the Territory under the Renewed Products Sales and Distribution Agreement (the “**Distribution Transaction**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 11 December 2017 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 20 November 2017, the Company entered into (i) the Renewed LCD Products Sales Agreement with Panda-LCD; (ii) the Renewed Semiconductor Products Sales Agreement with Panda-FPD; and (iii) the Renewed Products Sales and Distribution Agreement with CECI and CEACI (collectively, the “**Renewed Agreements**”) to renew the Continuing Connected Transactions as contemplated under each of the Renewed Agreements. Pursuant to the Renewed Agreements, the Group agreed to (i) supply the LCD Products to Panda-LCD; (ii) supply Semiconductor Products to Panda-FPD; and (iii) appoint CEACI as one of the non-exclusive authorized distributors of the Group to sell and distribute the Products within the Territory.

With reference to the Board Letter, the Continuing Connected Transactions constitute continuing connected transactions of the Company and are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirement under Chapter 14A of the Listing Rule.

LETTER FROM GRAM CAPITAL

The Independent Board Committee comprising Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Mr. Yiu Tin Chong, Joseph (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Renewed Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Continuing Connected Transactions 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; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Continuing Connected Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Continuing Connected Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The 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 as contained in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Panda-LCD, Panda-FPD, CEACI, CECI or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Continuing Connected Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into

LETTER FROM GRAM CAPITAL

account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Continuing Connected Transactions

Information on the Group

With reference to the Board Letter, the Group is principally engaged in the design, development and sales of proprietary IC 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.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2016 and the six months ended 30 June 2017 (with comparative figures in 2016) as extracted from the Company's annual report for the year ended 31 December 2016 (the "2016 Annual Report") and the Company's interim report for the six months ended 30 June 2017:

	For the year ended 31 December 2016	For the year ended 31 December 2015	Change from 2015 to 2016
	<i>US\$'000</i>	<i>US\$'000</i>	<i>%</i>
	(audited)	(audited)	
Sales	68,408	70,902	(3.52)
Gross profit	23,530	23,218	1.34
Loss attributable to the equity holders of the Company	(6,929)	(6,435)	7.68

LETTER FROM GRAM CAPITAL

	For the six months ended 30 June 2017	For the six months ended 30 June 2016	Change from 2016 to 2017
	<i>US\$'000</i>	<i>US\$'000</i>	<i>%</i>
	(unaudited)	(unaudited)	
Sales	38,637	32,887	17.48
Gross profit	14,711	10,439	40.92
Loss attributable to the equity holders of the Company	(5,577)	(6,382)	(12.61)

As depicted from the table above, the sales of the Group for the year ended 31 December 2016 (“FY2016”) amounted to approximately US\$68.41 million, represented a slight decrease as compared to that for the year ended 31 December 2015 (“FY2015”). The loss attributable to the equity holders of the Company for FY2016 increased by approximately 7.68% as compared to that for FY2015.

As depicted from the table above, the sales and gross profit of the Group for the six months ended 30 June 2017 improved significantly as compared to those for the corresponding period in 2016. As the said improvement was mainly due to new business operations and an increase in the general average selling price of the Group’s products. The loss attributable to the equity holders of the Company for the six months ended 30 June 2017 also reduced by approximately 12.61% as compared to that for the corresponding period in 2016.

Information on the parties to the Continuing Connected Transactions

Set out below is the information on the parties to the Continuing Connected Transactions as extracted from the Board Letter:

CEC, an indirect substantial shareholder and connected person of the Company, is a state-owned information technology conglomerate directly under the administration of the central government of the PRC.

NEIIC is a state-owned electronics group. Its business portfolio covers electronic equipment, electronic components, consumer electronics products and modern service industry. NEIIC is a subsidiary of CEC.

Panda-LCD is principally engaged in the manufacturing of LTFT-LCD panels and modules. Its major products include panels and modules for LCD monitors and televisions. CEC is holding 21.14% of Panda-LCD directly and 49.66% of Panda-LCD through NEIIC. Panda-LCD is therefore an associate of CEC and a connected person of the Company.

Huadong Electronics is principally engaged in related electronics manufacturing. Its business portfolio covers quartz crystal, touch control display, magnetic materials and vacuum electronics industries. CEC is the ultimate controlling shareholder of Huadong Electronics.

LETTER FROM GRAM CAPITAL

Panda-FPD is principally engaged in the manufacturing of LCD panels and modules. Its major products include panels and modules for LCD monitors and televisions. Panda-FPD is a subsidiary of Huadong Electronics. Panda-FPD is therefore an associate of CEC and a connected person of the Company.

CECI and its wholly-owned subsidiary CEACI have more than 30 years' experience as professional technology distributors and in providing technology services. CECI/CEACI is a distributor for 10 categories of products, including smart TV, power electronics, smart touch, security monitoring, wireless and internet, automobile electronics, communication systems, consumer electronics products, industrial control and power management. CECI is one of the indirect subsidiaries of the CEC. Accordingly, CECI and CEACI are connected persons of the Company.

Reasons for and benefits of the Continuing Connected Transactions

With reference to the Board Letter, the Existing LCD Products Sales Agreement has strengthened the business relationship between the Group and Panda-LCD. Through the Existing LCD Products Sales Agreement, Panda-LCD has recognised the Group as a reliable supplier of competitive products to meet the needs of its business; while the Group has gained a high volume customer and enhanced the business development of its LTFT-LCD driver ICs. Accordingly, the Directors consider that it is in the interests of the Group to enter into the Renewed LCD Products Sales Agreement to cover years 2018 to 2020 with the respective Annual Caps.

With reference to the Board Letter, Panda-FPD is a subsidiary of Huadong Electronics and has recognised the Group as a qualified supplier of competitive products to meet the needs of its business. Through the Renewed Semiconductor Products Sales Agreement, the Group can enrich its customer portfolio with a new and high volume customer. Accordingly, the Group is able to further enhance the business development of its driver ICs. In addition, the Renewed Semiconductor Products Sales Agreement can further strengthen the business relationship between the Group and various subsidiaries under CEC. Accordingly, the Directors consider that it is in the interests of the Group to enter into the Renewed Semiconductor Products Sales Agreement for the three years ending 31 December 2020 with the respective Annual Caps.

With reference to the Board Letter, the Company completed the purchases of maXTouch® semiconductor products and technology in FY2016 to accelerate the growth of the mobile touch business of the Group. Whilst CECI/CEACI was originally the major distributor of the Seller in the PRC and also the major distributor in the PRC for the maXTouch® semiconductor products, it will be beneficial for the Company as a whole to continue to engage CECI/CEACI to ensure smooth transition of the maXTouch® product distribution in the PRC and fast growth of the mobile touch business of the Company in the PRC.

Having considered the above and that (i) the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and bring revenue to the Group; (ii) the Group has long-established relationship with the parties to the Continuing Connected Transactions, we concur with the Directors that the Continuing Connected Transactions are in the interest of the Company and the Shareholders as a whole.

LETTER FROM GRAM CAPITAL

2. Principal terms of the Continuing Connected Transactions

I. LCD Transaction

Date:	20 November 2017
Parties:	The Company; and Panda-LCD
Nature of transactions:	The sales of the LCD Products by the Group to Panda-LCD
Term:	Starting on 1 January 2018 and ending on 31 December 2020, subject to the approval by the Independent Shareholders.
Pricing basis and policy (the “LCD Products Pricing Basis & Policy”):	The Group shall supply the LCD Products to Panda-LCD at the prevailing market price, which shall be determined according to the methods and procedures: <ul style="list-style-type: none">(i) the sales team and marketing team of the Group would regularly gather market intelligence by way of research and investigation to ascertain the quality of the LCD Products compared to similar products in the market and the reference price of each type of the LCD Products in the market;(ii) the Group would regularly review, monitor and benchmark with the industry the gross profit margin in respect of the sale of the LCD Products;(iii) the Group would also send sales engineers on-site to work closely with the buyer with a view to obtaining information on the demand and inventory situation of the buyer and reporting the same to the Company; and(iv) with reference to the production costs of the LCD Products of different specifications, the Company would mark up the cost of the LCD Products on a “cost-plus” basis with reference to the industrial gross profit margin, and negotiate with the buyer, on an arm’s length basis, to determine the final prices of the LCD Products.

LETTER FROM GRAM CAPITAL

Payment terms: Payments for the LCD Products ordered shall be made by telegraphic transfers through bank within such time and in such manner in accordance with normal market practices.

For our due diligence purpose, we obtained sales records and invoices for the sales of LCD Products by the Group to Panda-LCD during the nine months ended 30 September 2017. We also had discussion with the management of the Company and understood that the pricing of such sales was on a “cost-plus” basis with reference to the Group’s internal budgeted gross profit margin. Accordingly, we consider such sales to be on normal commercial terms.

With reference to the Board Letter, in order to ensure that the abovementioned LCD Products Pricing Basis & Policy is complied with, the business units would meet with the business operation departments and the relevant sales team roughly on a weekly or ad hoc basis, and the pricing of the relevant products (determined in accordance with the pricing policy) would be reviewed and approved by the relevant head of business unit or the business operation department (as the case may be) at such meetings as and when necessary. Any unusual changes in the pricing of the products would also be reported by the business units and/or business operation departments to the management of the Company at monthly meetings and at the Company’s staff meetings held on a quarterly basis.

For our due diligence purpose, we discussed with the management of the Company to understand the above procedures. Having considered the steps under the above procedures, we are of the view that the effective implementation of the LCD Products Pricing Basis & Policy can ensure that the LCD Transaction is conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

With reference to the 2016 Annual Report and as confirmed by the Directors, the independent non-executive Directors have reviewed relevant continuing connected transactions of the Company during FY2016 and confirmed that such continuing connected transactions were (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole; and (iv) within the annual cap (the “**INED’s Confirmation**”).

In addition, the Company’s independent auditor was engaged to report on the Group’s continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Listing Rules, the auditor of the Company, has provided a letter to the Board regarding the continuing connected transactions during FY2016

LETTER FROM GRAM CAPITAL

confirming that: (i) nothing has come to their attention that causes them to believe that the continuing connected transactions have not been approved by the Board; (ii) for transactions involving the provisions of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the agreements governing the transactions; and (iv) nothing has come to their attention that causes them to believe that the continuing connected transactions have exceeded the maximum aggregate annual value as disclosed in the relevant announcements (the “**Auditor’s Confirmation**”).

In light of the above and that the Group has proper pricing basis and policy for the LCD Transaction, we are of the view that the terms of the Renewed LCD Products Sales Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

II. Semiconductor Transaction

Date:	20 November 2017
Parties:	The Company; and Panda-FPD
Nature of transactions:	The sales of the Semiconductor Products by the Group to Panda-FPD
Term:	Starting on 1 January 2018 and ending on 31 December 2020, subject to the approval by the Independent Shareholders
Pricing basis and policy (the “ Semiconductor Products Pricing Basis & Policy ”):	The Group shall supply the Semiconductor Products to Panda-FPD at the prevailing market price, which shall be determined according to the following methods and procedures: (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 Semiconductor Products compared to similar products in the market and the reference price of each type of the Semiconductor Products in the market;

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- (ii) the operation team will regularly review, monitor and benchmark with the average industry gross profit margin in respect of the sales of the Semiconductor Products.
- (iii) the Group would also send sales engineers on-site to work closely with the buyer with a view to obtaining information on the demand and inventory situation of the buyer and reporting the same to the Company; and
- (iv) with reference to the production costs of the Semiconductor Products of different specifications, the Company would mark up the cost of the Semiconductor Products on a “cost-plus” basis with reference to the industrial gross profit margin, and negotiate with the buyer, on an arm’s length basis, to determine the final prices of the Semiconductor Products.

Payment terms: Payments for the Semiconductor Products ordered shall be made by telegraphic transfers through bank within such time and in such manner in accordance with normal market practices.

For our due diligence purpose, we obtained sales records and invoices for the sales of Semiconductor Products by the Group to Panda-FPD during the nine months ended 30 September 2017. We also had discussion with the management of the Company and understood that the pricing of such sales was on a “cost-plus” basis with reference to the Group’s internal budgeted gross profit margin. Accordingly, we consider such sales to be on normal commercial terms.

With reference to the Board Letter, in order to ensure that the abovementioned Semiconductor Products Pricing Basis & Policy is complied with, the business units would meet with the business operation departments and the relevant sales team roughly on a weekly or ad hoc basis, and the pricing of the relevant products (determined in accordance with the pricing policy) would be reviewed and approved by the relevant head of business unit or the business operation department (as the case may be) at such meetings as and when necessary. Any unusual changes in the pricing of the products would also be reported by the business units and/or business operation departments to the management of the Company at monthly meetings and at the Company’s staff meetings held on a quarterly basis.

For our due diligence purpose, we discussed with the management of the Company to understand the above procedures. Having considered the steps under the above procedures, we are of the view that the effective implementation of the Semiconductor Products Pricing Basis & Policy can ensure that the Semiconductor Transaction is

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conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

Having considered the above, the INED's Confirmation, the Auditor's Confirmation and that the Group has proper pricing basis and policy for the Renewed Semiconductor Products Sales Agreement, we are of the view that the terms of the Semiconductor Transaction are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

III. Distribution Transaction

Date:	20 November 2017
Parties:	The Company; and CECI, CEACI
Nature of transactions:	CEACI is appointed as one of the non-exclusive authorized distributors of the Group to sell and distribute the Products within the Territory. The Disty Agreement was executed simultaneously between SSL and CEACI to manage the sales and distribution of the Products within the Territory and other detailed operations for promotion, product ordering and delivery cooperation.
Term:	Starting on 16 February 2017 and ending on 31 December 2019, subject to the approval by the Independent Shareholders.
Pricing basis and policy:	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. 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 Disty Agreement and the Renewed Products Sales and Distribution Agreement.
Payment terms:	Payment for the Products shall be settled by CEACI in cash on a 30 days net basis.

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For our due diligence purpose, we obtained a distribution agreement for appointing independent third party distributor by the Group in 2017 to sell and distribute the Products within the Territory (the “**I3P Distribution Agreement**”). We noted that the key terms of the Renewed Products Sales and Distribution Agreement are comparable to those of the I3P Distribution Agreement.

Having considered the above and that the Group has proper pricing basis and policy for the Distribution Transaction, we are of the view that the terms of the Renewed Products Sales and Distribution Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. The Annual Caps under the Continuing Connected Transactions

I. LCD Transaction

	For the year ending 31 December 2017 US\$	For the year ended 31 December 2016 US\$	For the year ended 31 December 2015 US\$
Existing annual caps	20,000,000	18,000,000	16,000,000
Actual sales amounts	2,222,000	3,784,000	12,455,000
	<i>(Note)</i>		
Utilisation rate	N/A	21.02%	77.84%
	For the year ending 31 December 2020 US\$	For the year ending 31 December 2019 US\$	For the year ending 31 December 2018 US\$
Annual Caps under the LCD Transaction (the “ LCD Cap(s) ”)	20,000,000	15,000,000	10,000,000

Note: For the nine months ended 30 September 2017

With reference to the Board Letter, all the LCD Caps are estimated with reference to the existing selling prices of the LCD Products, possible price erosion of such LCD Products as well as the expected demand for the LCD Products, having taken into account the orders received and expected to be received from Panda-LCD from September to November 2017 as well as the Group’s estimated percentage share of Panda-LCD’s total supply of related products in the market.

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With reference to the Board Letter, the LCD Products supplied by the Group to Panda-LCD since March 2012 have proven to have met all the customer satisfaction requirements of Panda-LCD. The proposed 2018, 2019 and 2020 LCD Caps are prepared by extending the latest purchase indication from Panda-LCD to the Group for the LCD Products. Assumptions used include:

- (i) Panda-LCD will further develop their business relationship with the Group following the recent issue of a notice by the CEC group (the “**CEC Notice**”) to all its associates to encourage them to foster business cooperation and investment strategy in a synergic manner;
- (ii) the Group can maintain and/or increase the competitiveness of the LCD Products;
- (iii) Panda-LCD is able to keep its demand momentum for the LCD Products pursuant to the new purchase indication from Panda-LCD to the Group for the LCD Products in 2017, such that the demand momentum for the LCD Products will extend to 2018, 2019 and 2020. If the products of Panda-LCD are less competitive than expected, its demand for the Products and thus the transaction amount of the Continuing Connected Transactions will be affected;
- (iv) the current demand growth plan of Panda-LCD based on the sales forecast of its products can be realized;
- (v) Panda-LCD will purchase certain new LCD Products pursuant to the Group’s product roadmap and product portfolio;
- (vi) the favourable business opportunities anticipated for Panda-LCD and the Group can be realized; and
- (vii) with an increasing trend of the sales of LCD Products in 2017, the Group estimates that, for the year ending 31 December 2018, its sales for the LCD Product could be double or more of the sales in 2017, with a year-on-year growth of U\$5 million in respect for the two years thereafter.

For our due diligence purpose, we obtained the following information/documents from the Company in relation to the aforesaid assumptions used in the preparation of the LCD Caps and discussed the same with the management of the Company: (i) the CEC Notice; and (ii) the sales record of the LCD Products to Panda-LCD for the nine months period ended 30 September 2017 which demonstrated that the monthly average sales of the LCD Products to Panda-LCD in August and September 2017 is more than double of the monthly average from January 2017 to July 2017.

During our discussion with the management of the Company, we did not identify any major factors which caused us to doubt the fairness and reasonableness of the assumptions used in the preparation of the LCD Caps.

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As depicted from the table above, we note that the utilisation rate of the existing annual cap for FY2016 was low and the actual sales amount of the LCD Transaction for the nine months ended 30 September 2017 was much lower than the existing annual cap for the year ending 31 December 2017. Upon our enquiry, the Directors advised us that the LCD Cap for the year ending 31 December 2018 was adjusted down for the above circumstances.

In light of the above, we consider that the LCD Caps are fair and reasonable so far as the Independent Shareholders are concerned.

II. Semiconductor Transaction

	For the year ending 31 December 2017 US\$	For the year ended 31 December 2016 US\$	For the year ended 31 December 2015 US\$
Existing annual caps	60,000,000	24,000,000	20,000,000
Actual sales amounts	531,000 <i>(Note)</i>	6,000	–
Utilisation rate	N/A	0.03%	–
	For the year ending 31 December 2020 US\$	For the year ending 31 December 2019 US\$	For the year ending 31 December 2018 US\$
Annual Caps under the Semiconductor Transaction (the “ Semiconductor Cap(s) ”)	15,000,000	10,000,000	5,000,000

Note: For the nine months ended 30 September 2017

With reference to the Board Letter, all the Semiconductor Caps are estimated with reference to the existing selling prices of the Semiconductor Products, possible price erosion of such Semiconductor Products as well as the expected demand for the Semiconductor Products. Assumptions used in estimating the proposed 2018, 2019 and 2020 Semiconductor Caps include:

- (i) Panda-FPD will further develop their business relationship with the Group following the recent issue of a notice by the CEC group (i.e. the CEC Notice) to all its associates to encourage them to foster business cooperation and investment strategy in a synergic manner; and
- (ii) the utilization of the historical caps under the Existing Semiconductor Products Sales Agreement was lower than expected as the relevant production facilities of

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Panda-FPD only commenced its pilot run in 2015 and was still under design and testing stage in 2016. However, since July 2017, with the continuous ramp up of production capacity of Panda-FPD, there has been a significant growth in the relevant revenue as evidenced by the Group's sales track records of the Semiconductor Products over the three years ending 2017. With such an increasing trend, the Group would therefore expect to achieve the Semiconductor Cap for 2018 and a moderate absolute growth of US\$5 million for the years thereafter.

For our due diligence purpose, we obtained the following information/documents from the Company in relation to the aforesaid assumptions used in the preparation of the Semiconductor Caps and discussed the same with the management of the Company: (i) the CEC Notice; and (ii) the sales record of the Semiconductor Products to Panda-FPD for the nine months period ended 30 September 2017 which demonstrated that such sales in 2017 were (a) recorded during June to September 2017; and (b) much more than the sales of Semiconductor Products to Panda-FPD for FY2016.

During our discussion with the management of the Company, we did not identify any major factors which caused us to doubt the fairness and reasonableness of the assumptions used in the preparation of the Semiconductor Caps.

In light of the above, we consider that the Semiconductor Caps are fair and reasonable so far as the Independent Shareholders are concerned.

III. Distribution Transaction

	For the year ending 31 December 2017 US\$	For the year ended 31 December 2016 US\$	For the year ended 31 December 2015 US\$
Existing annual caps	3,300,000	N/A	N/A
Actual sales amounts	3,348,000 <i>(Note)</i>	74,000	–
Utilisation rate	N/A	N/A	–
	For the year ending 31 December 2019 US\$	For the year ending 31 December 2018 US\$	For the year ending 31 December 2017 US\$
Annual Caps under the Distribution Transaction (the “ Distribution Cap(s) ”)	15,000,000	10,000,000	5,000,000

Note: For the nine months ended 30 September 2017

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With reference to the Board Letter, all the Distribution Caps are estimated with reference to the forecasted selling prices of the Products, possible price erosion of such Products as well as the expected demand for the Products. The existing annual cap for the year of 2017 was US\$3,300,000. Due to a sudden increase in business volume and failure to report increased transactions in a timely manner, the 2017 annual cap has been marginally exceeded as at 30 September 2017. Upon becoming aware of such annual cap being exceeded, the Group has ceased the transactions until the revision of the annual cap. The annual cap for the year of 2017 has been slightly revised accordingly to accommodate business needs of the Group.

The new Distribution Cap for 2017 was established on the basis of an enhanced revenue growth during the year. The 2018 and 2019 Distribution Caps are therefore extrapolated on this increased turnover trend and based on customers' forecasts and the Company's internal assessments. The management considers these Distribution Caps are realistic and consistent with internal operating budgets of the Group.

Having considered the historical amount of the Distribution Transaction for the nine months ended 30 September 2017 which was over 40 times of the historical amount of the Distribution Transaction for FY2016, we consider the growth in the Distribution Caps from 2017 to 2019 to be reasonable.

In light of the above, we consider that the Distribution Caps are fair and reasonable so far as the Independent Shareholders are concerned.

4. Listing Rules implication regarding the Continuing Connected Transactions

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Continuing Connected Transactions must be restricted by their respective proposed annual cap for the period concerned under the Renewed Agreements; (ii) the terms of the Continuing Connected Transactions (including their respective Annual Caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Continuing Connected Transactions must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded their respective Annual Caps. In the event that the total amounts of the Continuing Connected Transactions are anticipated to exceed their respective Annual Caps, or that there is any proposed material amendment to the terms of the Continuing Connected Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

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Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Continuing Connected Transactions and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Renewed Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Continuing Connected Transactions 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 Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Continuing Connected Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

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 Securities and Futures Ordinance), 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	% of the issued share capital of the Company
Independent Non-executive Directors					
Leung Heung Ying	Long	–	1,600,000	1,600,000	0.06%
Sheu Wei Fu	Long	–	2,400,000	2,400,000	0.10%
Yiu Tin Chong, Joseph	Long	2,000,000	2,400,000	4,400,000	0.18%
Non-executive Directors					
Li Rongxin	Long	–	–	–	–
Li Jun	Long	–	–	–	–
Zhao Guiwu	Long	–	–	–	–
Executive Directors					
Yeh Tsuei Chi	Long	2,212,000	10,000,000	12,212,000	0.49%
Lo Wai Ming	Long	33,572,179	6,000,000	39,572,179	1.60%

INTEREST OF SUBSTANTIAL SHAREHOLDER

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 of shareholder	Capacity	Position	Number of shares held	% of the issued share capital of the Company
Huada Semiconductor Co., Ltd	Beneficial owner	Long	706,066,000	28.5%
China Electronics Corporation	Interest of controlled corporation	Long	706,066,000	28.5%

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

Name of Director	Position held
Dr. Li Jun	General manager, department of planning, science & technology of CEC
Mr. Li Rongxin	Deputy general manager of Huada Semiconductor Co., Ltd., a subsidiary of CEC
Mr. Zhao Guiwu	Vice chairman of Shanghai Huahong Group Co., Ltd., a subsidiary of CEC

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.

LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

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 2016 (being the date to which the latest published 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 2016, being the date to which the latest published accounts of the Group were made up.

EXPERT AND CONSENT

Gram Capital is a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO.

Gram Capital is the expert who has been named in this circular or has given opinions or advice in this circular and Gram Capital has confirmed that as at the Latest Practicable Date, it has no shareholding in any members of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the group or 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 member of the Group since 31 December 2016 (being the date to which the latest published accounts of the Group were made up).

As at the Latest Practicable Date, Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear herein. Its letter was issued on 11 December 2017 and was made by it for incorporation in this circular.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 27 December 2017:

- (A) the Renewed LCD Products Sales Agreement;
- (B) the Renewed Semiconductor Products Sales Agreement;
- (C) the Renewed Products Sales and Distribution Agreement;
- (D) the Disty Agreement;
- (E) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (F) the letter from the Independent Financial Adviser — Gram Capital Limited, the text of which is set out in this circular;
- (G) the written consent referred to in the section headed "Expert and Consent" in this Appendix;
and
- (H) the Memorandum and Articles of Association of the Company.

GENERAL

The registered office of the Company is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands.

The principal place of business of the Company is 6/F, No.3 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

The company secretary of the Company is Mr. Ng Sui Wa, who is the Vice President, Finance of the Group. SW Corporate Services Group Limited has been engaged to provide corporate secretarial services to the Company.

NOTICE OF EXTRAORDINARY GENERAL MEETING



**SOLOMON
SYSTECH**

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting of Shareholders of Solomon Systech (International) Limited (the “Company”) will be held at 4:30 p.m. on 29 December 2017, Friday at 6/F, 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 as ordinary resolutions:

(1) **“THAT**

- the Renewed LCD Products Sales Agreement (as defined in the announcement of the Company dated 20 November 2017) be and is hereby approved;
- the 2018, 2019 and 2020 annual caps of US\$10 million, US\$15 million and US\$20 million, respectively, be and are hereby approved; and
- the Board of the Company be and is hereby authorised to take all actions necessary or expedient in its opinion to implement and/or give effect to the Renewed LCD Products Sales Agreement.”

(2) **“THAT**

- the Renewed Semiconductor Products Sales Agreement (as defined in the announcement of the Company dated 20 November 2017) be and is hereby approved;
- the 2018, 2019 and 2020 annual caps of US\$5 million, US\$10 million and US\$15 million, respectively, be and are hereby approved; and
- the Board of the Company be and is hereby authorised to take all actions necessary or expedient in its opinion to implement and/or give effect to the Renewed Semiconductor Products Sales Agreement.”

(3) **“THAT**

- the Renewed Products Sales and Distribution Agreement (as defined in the announcement of the Company dated 20 November 2017) and the Disty Agreement (as defined in the announcement of the Company dated 20 November 2017) be and are hereby approved;
- the 2017, 2018 and 2019 annual caps of US\$5 million, US\$10 million and US\$15 million, respectively, be and are hereby approved; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- the Board of the Company be and is hereby authorised to take all actions necessary or expedient in its opinion to implement and/or give effect to the Renewed Products Sales and Distribution Agreement and the Disty Agreement.”

On behalf of the Board
Dr. Yeh Tsuei Chi
Chief Executive Officer

Hong Kong, 11 December 2017

As at the date of this notice, the Board comprises: (a) Executive Directors – Dr. Yeh Tsuei 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.

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 notarially certified copy of such power of attorney or authority, must be deposited at the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (c) For determining the entitlement to attend and vote at the above meeting, the Register of Members of the Company will be closed from Thursday, 28 December 2017 to Friday, 29 December 2017, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates and forms of transfer must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 27 December 2017.
- (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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited (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 Extraordinary General Meeting is enclosed and such form is also published on the websites of Hong Kong Exchanges and Clearing Limited (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 Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong or by sending an email to the Company’s Hong Kong Share Registrar at solomon2878-ecom@hk.tricorglobal.com.

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.