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**SOLOMON  
SYSTECH**

**SOLOMON SYSTECH (INTERNATIONAL) LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2878)**

## **CONTINUING CONNECTED TRANSACTION**

### **RENEWAL OF PRODUCTS SALES AND DISTRIBUTION**

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The Board is pleased to announce that on 17 July 2018, the Company has entered into the Renewed Products Sales and Distribution Agreement with CECI in respect of the sales and distribution of the Products within the Territory to revise the existing annual caps for 2018 and 2019, and cover the transactions for the year ending 31 December 2020.

The Company understands that CECI is an indirect subsidiary of CEC (being an indirect substantial Shareholder) and wholly owns CEACI. Accordingly, CECI and CEACI are connected persons of the Company and the transactions under the Renewed Products Sales and Distribution Agreement constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As all 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.

#### **DESPATCH OF CIRCULAR**

A circular containing, inter alia, (i) further details of the Continuing Connected Transaction; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Continuing Connected Transaction; (iii) a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transaction; and (iv) a notice convening the EGM of the Company, will be despatched to the Shareholders on or before 7 August 2018.

## I. RENEWAL OF PRODUCTS SALES AND DISTRIBUTION

### 1. Introduction

The Board is pleased to announce that on 17 July 2018, the Company has entered into the Renewed Products Sales and Distribution Agreement with CECI in respect of the sales and distribution of the Products within the Territory to revise the existing annual caps for 2018 and 2019, and cover the transactions for the year ending 31 December 2020.

Reference is made to the announcement of the Company dated 20 November 2017 and the circular of the Company dated 11 December 2017, which disclosed 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 in the PRC to sell and distribute the Products of the Group within the Territory for the period from 16 February 2017 to 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.

### 2. Details of the terms of the Renewed Products Sales and Distribution Agreement

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

#### *Date*

17 July 2018

#### *Parties*

CECI, CEACI, SSL 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. A standard Solomon Systech component distribution agreement (“**Disty Agreement**”) was executed simultaneously between SSL (being the major wholly-owned operating subsidiary of the Company) 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 1 January 2018 and ending on 31 December 2020, subject to the approval by the Independent Shareholders.

### *Pricing basis and policy*

- (i) 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.
- (ii) 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.
- (iii) Payment for the Products shall be settled by CEACI in cash on a 30 days net basis.
- (iv) Each party shall exercise its rights and comply with its obligations as stipulated in agreements, relevant purchase orders or other related contracts.

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.

### *Annual Caps*

The Annual Caps proposed for each of the three years ending 31 December 2020 are US\$18 million, US\$24 million and US\$30 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:

<b>For the six months ended 30 June 2018 (unaudited) US\$'000</b>	<b>For the year ended 31 December 2017 (audited) US\$'000</b>	<b>For the year ended 31 December 2016 (audited) US\$'000</b>
7,405	3,348	74

The existing annual caps for three years ending 31 December 2019 were US\$5 million, US\$10 million and US\$15 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.

### **3. 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 Microchip Technology Incorporated (being the seller stated in the announcement of the Company dated 1 November 2016 entitled “The Purchase of the Target Assets and Semiconductor Products”) 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 and other businesses of the Company in the PRC.

The main reason for increasing the existing annual cap for 2018 of US\$10 million is due to the exceptionally well-performed revenue from the sales and distribution of the Products for the six months ended 30 June 2018, which has reached over US\$7 million already, and, in view of the current order backlogs of the Products, it is expected that the sales volume of the Products will further increase in the second half of 2018. In view of some new products introduced, the strong revenue growth trend of the Products is expected to extend to 2019 and 2020, and the existing annual cap for 2019 is revised and the Annual Cap for 2020 is set accordingly.

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.

The Directors have approved the Renewed Products Sales and Distribution Agreement at the meeting of the Board on 17 July 2018. Dr. Li Jun, Mr. Li Rongxin, and Mr. Ma Yuchuan who are officers of the CEC group have abstained from voting on the relevant resolution of the Board at such meeting. Save as disclosed above, none of the Directors has any material interest in the transactions under the Renewed Products Sales and Distribution Agreement and has to abstain from voting for the reason of having a material interest in such transactions.

The Directors (excluding the independent non-executive Directors who will provide their views 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 2020 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.

#### **4. Listing Rules implications**

The Company understands that CECI is an indirect subsidiary of CEC (being an indirect substantial Shareholder) 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 all 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.

#### **5. General**

An Independent Board Committee will be established to advise the Independent Shareholders in respect of the transactions under the Renewed Products Sales and Distribution Agreement. Gram Capital has been appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders on the transactions under the Renewed Products Sales and Distribution Agreement.

#### **6. Information on the connected persons**

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 electronic products, industrial control and power management. CECI is one of the indirect subsidiaries of the CEC group.

## II. INFORMATION ON THE GROUP

The Group is principally engaged in the design, development and sales of proprietary integrated circuits products and system solutions that enable a wide range of display applications for smartphones, smart TVs and other smart devices including consumer electronics products, portable devices, industrial appliances and green energy applications.

## III. DESPATCH OF CIRCULAR

A circular containing, inter alia, (i) further details of the Continuing Connected Transaction; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Continuing Connected Transaction; (iii) a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transaction; and (iv) a notice convening the EGM of the Company, will be despatched to the Shareholders on or before 7 August 2018.

## IV. DEFINITIONS

“Annual Cap(s)”	the proposed annual cap(s) of the transactions under the Renewed Products Sales and Distribution Agreement for the relevant years as set out in the section headed “I. Renewal of Products Sales and Distribution – Annual Caps” in this announcement
“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, an indirect substantial Shareholder through its interests in Huada, 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 the CEC, and a connected person of the Company

“Company”	Solomon Systech (International) Limited, a company incorporated in Cayman Islands with limited liability and whose shares are listed and traded on the main board of the Stock Exchange. Shares of the Company are ordinary shares of HK\$0.10 each in the share capital of the Company
“connected persons”	has the same meaning as ascribed to it under the Listing Rules
“Continuing Connected Transaction”	the transactions under the Renewed Products Sales and Distribution Agreement
“Director(s)”	director(s) of the Company
“Disty Agreement”	has the meaning ascribed to it under the section headed “I. Renewal of Products Sales and Distribution – 2. Details of the terms of the Renewed Products Sales and Distribution”
“EGM”	the extraordinary general meeting of the Company to be convened for the approval of the Continuing Connected Transactions
“Existing 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, details of which are set out in the announcement of the Company dated 20 November 2017
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Huada”	華大半導體有限公司 (Huada Semiconductor Co. Ltd.**), a company established in the PRC to consolidate all IC businesses under CEC group, a substantial Shareholder, and a connected person of the Company
“IC”	integrated circuits
“Independent Board Committee”	an independent committee of the Board comprising all Independent Non-executive Directors, namely, Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Mr. Yiu Tin Chong, Joseph
“Independent Financial Adviser” or “Gram Capital”	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 Transaction

“Independent Shareholders”	Shareholders other than CEC and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Products”	IC and driver products of the Group
“Renewed Products Sales and Distribution Agreement”	the agreement dated 17 July 2018 between CECI and the Company in respect of the sales and distribution of the Products
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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 the major wholly-owned operating subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the same meaning as ascribed to it under the Listing Rules
“Territory”	Mainland China and Hong Kong
“US\$”	the United States Dollars, the lawful currency of the United States of America

By Order of the Board  
**SOLOMON SYSTECH (INTERNATIONAL) LIMITED**  
**NG Sui Wa**  
*Company Secretary*

Hong Kong, 17 July 2018

*As at the date of this announcement, 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. Ma Yuchuan; and (c) Independent Non-executive Directors – Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Mr. Yiu Tin Chong, Joseph.*

\*\* for identification purpose only