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**SOLOMON  
SYSTECH**

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

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

**(Stock Code: 2878)**

### **CONTINUING CONNECTED TRANSACTION**

Reference is made to the Previous Products Sales and Distribution Announcement.

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

As the Existing Products Sales and Distribution Agreement will expire on 31 December 2020, and the Company intends to continue carrying out the existing arrangements with CEACI under the Existing Products Sales and Distribution Agreement on sales and distribution of the Products within the Territory as part of the Group's usual and ordinary course of business, the Company entered into the New Products Sales and Distribution Agreement with CEACI on 22 October 2020 (after trading hours of the Stock Exchange) to renew the arrangements under the Existing Products Sales and Distribution Agreement for a term of three years.

#### **LISTING RULES IMPLICATIONS**

As the date of this announcement, CEC, through its wholly-owned subsidiary, Huada, holds indirectly 706,066,000 Shares, representing approximately 28.47% of the existing total number of issued shares of the Company. CEC is a substantial shareholder of the Company. The Company understands that CEACI is an indirect subsidiary of CEC and wholly owns CEACI. Accordingly, CEACI is a connected person of the Company and the transactions under the New Products Sales and Distribution Agreement constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio for the New Products Sales and Distribution Transactions is not less than 25% and the annual consideration for the New Products Sales and Distribution Transactions is more than HK\$10 million, the New Products Sales and Distribution Transactions will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. CEC, Huada and its associates will abstain from voting in respect of the resolution(s) to approve the New Products Sales and Distribution Transactions and the New Transactions Caps at the EGM.

## **DESPATCH OF CIRCULAR**

A circular containing, inter alia, (i) further details of the New Products Sales and Distribution Transactions; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the New Products Sales and Distribution Transactions; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the New Products Sales and Distribution Transactions; and (iv) a notice convening the EGM of the Company, will be despatched to the Shareholders on or before 12 November 2020.

## **BACKGROUND**

Reference is made to the Previous Products Sales and Distribution Announcement.

As the Existing Products Sales and Distribution Agreement will expire on 31 December 2020, and the Company intends to continue carrying out the existing arrangements with CEACI under the Existing Products Sales and Distribution Agreement on sales and distribution of the Products within the Territory as part of the Group's usual and ordinary course of business, the Company entered into the New Products Sales and Distribution Agreement with CEACI on 22 October 2020 (after trading hours of the Stock Exchange) to renew the Existing Products Sales and Distribution Agreement for a term of three years.

Further information regarding the New Products Sales and Distribution Transactions is set out below under the section headed "Continuing Connected Transaction":

## **CONTINUING CONNECTED TRANSACTION**

### **1. New Products Sales and Distribution Agreement**

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

<i>Date</i>	:	22 October 2020
<i>Parties</i>	:	(i) the Company; and (ii) CEACI
<i>Nature of transaction</i>	:	Pursuant to the New Products Sales and Distribution Agreement, CEACI is appointed as one of the non-exclusive authorized distributors of the Group to sell and distribute the Products within the Territory. CEACI shall manage the sales and distribution of the Products within the Territory and other detailed operations for promotion, product ordering and delivery cooperation.
<i>Term</i>	:	Starting on 1 January 2021 and ending on 31 December 2023, subject to the approval by the Independent Shareholders.

- Pricing basis and policy* : (i) 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.
- (ii) 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 New Products Sales and Distribution Agreement.
- (iii) To ensure the sales of goods to CEACI are conducted on normal commercial terms, or on terms no less favorable than terms available to independent parties, the management would on a regular basis review the reference price table by comparing the orders from unrelated third parties so that the price and terms offered to CEACI are fair and reasonable and comparable to those offered to unrelated third parties.
- (iv) The prices offered to CEACI are prepared by the sales department of the Company, reviewed by the department head and approved by the business unit/operation head. These procedures are the same as those adopted in sales to independent third parties.

The Board considers that the abovementioned 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* : Payment for the Products shall be settled by CEACI in cash on a 30 days net from date of invoice or other credit terms to be mutually agreed between the Company and CEACI which shall be conducted on normal commercial terms and comparable with those of the existing customers of the Company.

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

## 2. Transaction caps

As mentioned above, the Company intends to continue carrying out the existing arrangements with CEACI under the Existing Products Sales and Distribution Agreement on sales and distribution of the Products within the Territory as part of the Group's usual and ordinary course of business.

During the term of the Existing Products Sales and Distribution Agreement, in respect of LCD IC Products, the Group had engaged a third party distributor (the "**Existing LCD IC Products Distributor**") to carry out the relevant sales and distribution within the Territory and hence none of the sales and distribution of LCD IC Products of the Group were conducted pursuant to the Existing Products Sales and Distribution Agreement.

With the Group's existing distribution agreement with the Existing LCD IC Products Distributor for LCD IC Products expiring by 31 December 2020, in future, the Company intends to appoint CEACI as its non-exclusive authorized distributor on the sales and distribution of the LCD IC Products as well. As such, the New Transaction Caps of the New Products Sales and Distribution Agreement have been set to cover sales and distribution arrangements within the Territory in respect of the Products as well as the LCD IC Products.

### (a) Historical transaction amounts

- (i) The historical amounts of the sale of the Products by the Group to CEACI for each of the year ended 31 December 2018 and 2019 and for the nine months ended 30 September 2020 are set out as follows:

<b>Financial year/period</b>	<b>Historical amount of the transactions</b>	<b>Previously approved annual cap amount</b>
	<i>US\$'000</i>	<i>US\$'000</i>
For the year ended 31 December 2018	13,601	18,000
For the year ended 31 December 2019	14,568	24,000
For the nine months ended 30 September 2020	13,907	30,000

- (ii) The historical amounts of the sale of LCD IC Products by the Group to the Existing LCD IC Products Distributor for each of year ended 31 December 2018 and 2019 and for the nine months ended 30 September 2020 are set out as follows:

<b>Financial year/period</b>	<b>Historical amount of the transactions</b>
	<i>US\$'000</i>
For the year ended 31 December 2018	14,698
For the year ended 31 December 2019	36,371
For the nine months ended 30 September 2020	15,512

Hence, the historical amounts of the sale of the Products by the Group to CEACI and sale of LCD IC Products by the Group to the Existing LCD IC Products Distributor, in aggregate, for each of the year ended 31 December 2018 and 2019 and for the nine months ended 30 September 2020 are approximately US\$28.3 million, US\$50.9 million and US\$29.4 million, respectively.

**(b) New Transaction Caps**

The New Transaction Caps proposed for each of the three years ending 31 December 2023 are US\$50 million, US\$60 million and US\$70 million, respectively (*Note*).

The New Transaction Caps for the three years ending 31 December 2023 are determined with reference to:

- (i) the new arrangement involving the appointment of CEACI as the Company's non-exclusive authorized distributor on the sales and distribution of the LCD IC Products as disclosed in the section headed "2. Transaction caps" above;
- (ii) the historical figures of the sales of the Products by the Group to CEACI and the sales of LCD IC Products by the Group to the Existing LCD IC Products Distributor, in particular, in respect of the year ended 31 December 2019 which amounted to US\$50.9 million in aggregate; and
- (iii) an expected increase in demand for the Group's Products in the coming years in view of the introduction of new products coupled with the growth of new technology and new product markets, which includes:
  - (A) the potential growth of smart home appliances market under the rising trend of Artificial Intelligence of Thing ("AIoT");
  - (B) the strong growth potential of micro-LED which is said to be emerging as a next generation display technology, and in respect of which the Group has already paved the way for mass production of products that apply micro-LED technology; and
  - (C) the Group's commencement of mass production of Passive matrix OLED ("PMOLED") Touch and Display Driver Integration ("TDDI") IC, and the world's first N-Color Active Matrix Electrophoretic Display ("AMEPD") Driver IC Products.

*Note: The New Transaction 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 entering into the New 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 healthcare products, smartphones, smart TVs, monitors and other smart devices.

The Group had engaged CEACI, an established professional technology distributor, as one of its non-exclusive authorized distributors to sell and distribute the Products within the Territory for many years and has built up a long term strategic and solid business relationship with CEACI. Hence, the Directors (excluding the independent non-executive Directors who will provide their views after considering the advice of the Independent Financial Adviser) consider it beneficial to the Group to continue to conduct such arrangement with CEACI in order to ensure and maximize operating efficiency and generate stable and predictable revenue.

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

In light of the above, the Directors (excluding the independent non-executive Directors who will provide their views after considering the advice of the Independent Financial Adviser) consider that it is in the interests of the Group to enter into the New Products Sales and Distribution Agreement for the three years ending 31 December 2023 with the respective New Transaction Caps, and that the terms of the New Products Sales and Distribution Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors have approved the New Products Sales and Distribution Agreement at the meeting of the Board on 22 October 2020. Mr. Ma Yuchuan, Dr. Li Jun and Mr. Yu Jian who are officers of the CEC group have abstained from voting on the relevant resolution of the Board at such meeting. Save as disclosed above, none of the Directors has any material interest in the transactions under the New Products Sales and Distribution Agreement and has to abstain from voting for the reason of having a material interest in such transactions.

## **INFORMATION ON THE GROUP**

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

## **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 many categories of products, including but not limited to smart TVs, power electronics, smart touch, security monitoring, wireless and internet, automobile electronics, communication systems, consumer electronic products, industrial control and power management. CEACI is one of the indirect subsidiaries of the CEC group and is a wholly-owned subsidiary of CECI, which is, in turn, insofar as the Board is aware, held:

- (i) as to approximately 41.79% by 中國中電國際信息服務有限公司(China Electronics International Information Service Company Limited\*\*), a wholly-owned subsidiary of CEC;
- (ii) as to approximately 14.18% by 國家集成電路產業投資基金股份有限公司 (China Integrated Circuit Industry Investment Fund Co., Ltd.\*\*), which is a joint-stock corporate fund launched collectively by a number of institutions, mainly including the Ministry of Finance of the PRC, China Development Bank Capital Corporation Ltd, State Tobacco Monopoly Administration and Beijing E-Town International Investment & Development Co., Ltd., which are state-owned enterprises or PRC government institutions;
- (iii) as to approximately 9.58% by 中電創新基金(有限合夥) (CEC Innovation Fund (LP)\*\*), which is a limited partnership held by certain entities including CEC as to 59.90% and 全國社會保障基金理事會 (the National Council for Social Security Fund) as to 40% of the partnership interest;
- (iv) as to approximately 9.45% by 中電坤潤一期(天津)股權投資合夥企業(有限合夥) (CEC Kunrun I (Tianjin) Equity Investment Partnership (LP)\*\*), which is a limited partnership held by certain entities including 雲南工投產業股權投資基金合夥企業(有限合夥) (Yunnan Industrial Assets Investment Fund Partnership (LP)\*\*), an investment fund in turn ultimately held by a state-owned enterprise, as to 99.5% of the partnership interest;
- (v) as to approximately 9.45% by 中國國有資本風險投資基金股份有限公司 (China Venture Capital Fund Corporation Ltd.\*\*), which is in turn a state level investment fund established by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC;



- (vi) as to approximately 9.06% by 共青城億科合融投資管理合夥企業(有限合夥) (Gongqingcheng Yike Herong Investment Management Partnership (LP)\*\*), which is a limited partnership held by three investment funds as to approximately 63.04%, and by thirty individuals and one corporation as to approximately 36.96% in aggregate (and each such individual or corporation holds less than 5% of the partnership interest in the limited partnership);
- (vii) as to approximately 4.8% by 大聯大商貿有限公司 (Dalianda Trading Co., Ltd.\*\*), which is an indirect wholly-owned subsidiary of WPG Holdings Limited, a company whose shares are listed on the Taiwan Stock Exchange; and
- (viii) as to approximately 1.69% by 深圳前海同沁同立創新投資企業(有限合夥) (Shenzhen Qianhai Tongqin Tongli Innovation Investment Enterprise (LP)\*\*), which is a limited partnership held by an investment fund as to approximately 25% and nine individuals as to 72.5% in aggregate (and each such individual holds less than 20% of the partnership interest in the limited partnership).

CEC is a state-owned company whose ultimate beneficial owner is the State Council of the PRC. CEC is a nationwide electronics and information technology conglomerate directly administered by the PRC government and focuses on communications, consumer electronics products, semi-conductor and software sectors in the PRC.

## **LISTING RULES IMPLICATIONS**

As the date of this announcement, CEC, through its wholly-owned subsidiary, Huada, holds indirectly 706,066,000 Shares, representing approximately 28.47% of the existing total number of issued shares of the Company. CEC is a substantial shareholder of the Company. The Company understands that CECL is an indirect subsidiary of CEC and wholly owns CEACL. Accordingly, CEACL is a connected person of the Company and the transactions under the New Products Sales and Distribution Agreement constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio for the New Products Sales and Distribution Transactions is not less than 25% and the annual consideration for the New Products Sales and Distribution Transactions is more than HK\$10 million, the New Products Sales and Distribution Transactions will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. CEC, Huada and its associates will abstain from voting in respect of the resolution(s) to approve the New Products Sales and Distribution Transactions and the New Transactions Caps at the EGM.

## **GENERAL**

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the transactions under the New 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 New Products Sales and Distribution Agreement.

## **DESPATCH OF CIRCULAR**

A circular containing, inter alia, (i) further details of the New Products Sales and Distribution Transactions; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the New Products Sales and Distribution Transactions; (iii) a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the New Products Sales and Distribution Transactions; and (iv) a notice convening the EGM of the Company, will be despatched to the Shareholders on or before 12 November 2020.

## DEFINITIONS

“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 the Cayman Islands with limited liability and whose shares are listed and traded on the main board of the Stock Exchange. Shares of the Company are ordinary shares of HK\$0.10 each in the share capital of the Company;
“connected persons”	has the same meaning as ascribed to it under the Listing Rules;
“Director(s)”	director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened for, inter alia, the approval of the New Products Sales and Distribution Transactions and the New Transaction Caps;
“Existing LCD IC Products Distributor”	has the meaning as ascribed to it under the section headed “Continuing connected transaction - 2. Transaction caps” in this announcement;
“Existing Products Sales and Distribution Agreement”	the agreement dated 17 July 2018 entered into between SSL (a wholly-owned subsidiary of the Company), the Company, CECI and CEACI governing the terms and conditions for appointment of CEACI as one of the non-exclusive authorized distributors of the Company to sell and distribute within the Territory for the three years ending 31 December 2020, details of which are set out in the Previous Products Sales and Distribution Announcement;



“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 contemplated under the New Products Sales and Distribution Agreement and the New Transaction Caps;
“Independent Shareholders”	Shareholders other than CEC and its associates;
“LCD”	liquid crystal display;
“LCD IC Products”	IC and drivers product for LCD;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“New Products Sales and Distribution Agreement”	the agreement dated 22 October 2020 entered into between the Company and CEACI governing the terms and conditions for the appointment of CEACI as one of the non-exclusive authorized distributors of the Company to sell and distribute within the Territory for the three years ending 31 December 2023;
“New Products Sales and Distribution Transactions”	the transactions as contemplated under the New Products Sales and Distribution Agreement in relation to the sales and distribution of the Products of the Group within the Territory;
“New Transaction Cap(s)”	the proposed new annual cap amounts in relation to the New Products Sales and Distribution Transactions for each of the three financial years ending 31 December 2021, 2022 and 2023 as set out in the section headed “Continuing connected transactions – 2. Transaction caps” in this announcement;

“PRC”	the People’s Republic of China;
“Previous Products Sales and Distribution Announcement”	the Company’s announcement dated 17 July 2018, which disclosed, among others, the entering into of the Existing Products Sales and Distribution Agreement and the terms and conditions of the transactions contemplated under the Existing Products Sales and Distribution Agreement which constituted a continuing connected transaction of the Company under the Listing Rules;
“Products”	IC and driver products of the Group, which, for the avoidance of doubt, include LCD IC Products;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.01 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;
“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; and
“%”	per cent.

By Order of the Board  
**SOLOMON SYSTECH (INTERNATIONAL) LIMITED**  
**CHEUNG Chi Wah, Patrick**  
*Company Secretary*

Hong Kong, 22 October 2020

*As at the date of this announcement, the Board comprises: (a) Executive Directors – Mr. Wang Wah Chi, Raymond (Chief Executive Officer); (b) Non-executive Directors – Mr. Ma Yuchuan (Chairman), Dr. Li Jun, Mr. Yu Jian and Mr. Lo Wai Ming; and (c) Independent Non-executive Directors – Mr. Leung Heung Ying, Mr. Sheu Wei Fu and Mr. Yiu Tin Chong, Joseph.*

\*\* *For identification purposes only*