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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 TRANSACTION, PROPOSED ADOPTION OF CHINESE NAME AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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



Gram Capital Limited
嘉林資本有限公司

A letter from the Board is set out on pages 6 to 16 of this circular and a letter from the Independent Board Committee is set out on page 17 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 18 to 28 of this circular.

A notice convening an EGM of Solomon Systech (International) Limited to be held at 2:00 p.m. on Friday, 4 December 2020 at 6/F., No. 3 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong is set out on pages 33 to 34 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 54, 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 (i.e. by 2 December 2020 at 2:00 p.m.) 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.

PRECAUTIONARY MEASURES FOR THE EGM

Please refer to page 1 of this circular for the measures being taken to prevent and control the spread of the COVID-19 at the EGM, including but not limited to:

- (a) compulsory body temperature check;
- (b) compulsory wearing of surgical face mask;
- (c) maintaining a safe distance between seats; and
- (d) no provision of refreshments and beverages.

Any person who does not comply with the precautionary measures will be denied entry into or be required to leave the EGM venue. In light of the continuing risks posed by the COVID-19 and as part of the Company's control measures to safeguard the health and safety of the Shareholders, the Company strongly encourages the Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

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PRECAUTIONARY MEASURES FOR THE EGM

The health of the Shareholders, staff and stakeholders of the Company is of are amount importance to us. To prevent and control the spread of the COVID-19, the Company will implement the following at the EGM as part of the control measures to safeguard the health and safety of our attending Shareholders, staff and stakeholders of the Company:

- (i) compulsory body temperature checks will be conducted for every attendee at the entrance of the EGM venue. Any person who has a body temperature of over 37.5 degree Celsius or is subject to the mandatory quarantine order imposed by the Hong Kong government will be denied entry into or be required to leave the EGM venue;
- (ii) each attendee must wear a surgical facemask throughout the EGM and inside the EGM venue. Please note that no masks will be provided at the EGM venue and attendees should bring and wear their own masks;
- (iii) the Company will maintain a safe distance between seats; and
- (iv) no refreshments and beverages will be served.

In addition, the Company would like to remind all attending Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. The Company strongly encourages the Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return the proxy forms to the Company's branch share registrar and transfer agent in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.

In the event of any regulation imposed by the Hong Kong government due to COVID-19 requiring a change of the date or place of the EGM, the Company will publish an announcement on the websites of both the Company (www.solomon-systech.com) and the Stock Exchange (www.hkexnews.hk) to notify the Shareholders of the revised arrangements or an adjournment of the EGM.

The Company will publish a further announcement on its corporate website (www.solomon-systech.com) and the Stock Exchange's website (www.hkexnews.hk) to notify the Shareholders of the date, time and location of the adjourned meeting (if applicable).

DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

“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 on Friday, 4 December 2020 at 2:00 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 33 to 34 of this circular
“Existing LCD IC Products Distributor”	has the meaning as ascribed to it under the section headed “II. CONTINUING CONNECTED TRANSACTION – 2. Transaction caps” in the letter from the Board contained in this circular

DEFINITIONS

“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 the Products 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 New Products Sales and Distribution Transactions and the New Transaction Caps
“Independent Shareholders”	Shareholders other than CEC and its associates
“Latest Practicable Date”	9 November 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“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
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers

DEFINITIONS

“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 the Products 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, which constitute a continuing connected transaction of the Company and details of which are set out in the section headed “II. CONTINUING CONNECTED TRANSACTION” in the letter from the Board contained in this circular
“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 “II. CONTINUING CONNECTED TRANSACTION – 2. Transaction caps” in the letter from the Board contained in this circular
“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
“Proposed Adoption of Chinese Name”	has the meaning as ascribed to it under the section headed “III. PROPOSED ADOPTION OF CHINESE NAME” in the letter from the Board contained in this circular
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the share(s) of the Company

DEFINITIONS

“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
“%”	per cent

For identification purposes only

LETTER FROM THE BOARD



**SOLOMON
SYSTECH**

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

Directors:

Ma Yuchuan* (*Chairman*)

Wang Wah Chi, Raymond (*Chief Executive Officer*)

Li Jun*

Yu Jian*

Lo Wai Ming*

Leung Heung Ying**

Sheu Wei Fu**

Yiu Tin Chong, Joseph**

* *Non-executive Director*

** *Independent Non-executive Director*

Registered office:

2nd Floor

Century Yard

Cricket Square

P.O. Box 902

Grand Cayman

KY1-1103

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

12 November 2020

To the Shareholders

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTION,
PROPOSED ADOPTION OF CHINESE NAME
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

Reference is made to (i) the announcement of the Company dated 22 October 2020 in relation to the entering into of the New Products Sales and Distribution Agreement in respect of the New Products Sales and Distribution Transactions for the three years ending 31 December 2023; and (ii) the announcement of the Company dated 30 October 2020 in relation to the proposed adoption of a Chinese name of the Company.

LETTER FROM THE BOARD

The purpose of this circular is to give the Shareholders the notice of EGM and to provide the Shareholders with further information in respect of the New Products Sales and Distribution Transactions and the proposed adoption of a Chinese name of the Company.

The New Products Sales and Distribution Transactions are conditional upon the Independent Shareholders' approval at the EGM to be convened. Details of the New Products Sales and Distribution Transactions are set out in the section headed "II. CONTINUING CONNECTED TRANSACTION" below.

II. CONTINUING CONNECTED TRANSACTION

1. Renewal of products sales and distribution transactions

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, as disclosed in the announcement of the Company dated 22 October 2020, 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.

Details of the terms of the 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. The Group shall sell the Products directly to CEACI while 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.

LETTER FROM THE BOARD

- Pricing basis and policy* : (i) The prices for the Products shall be fixed case by case depending on the model(s) of the Products to be sold, and are determined on a cost-plus basis with reference to (a) the actual reasonable cost for manufacturing of the Products and (b) a fair and reasonable profit margin, which shall be agreed on by the parties after arm's length negotiation taking into account factors including (1) the historical prices for the Products, (2) the market prices of similar products sold within the Territory, (3) market information gathered by the parties, (4) quotations from independent third party(ies), and (5) the technology and quality of the Products. The profit margin will vary for different models of the Products but is expected to be within a range from 5% to 50%.
- (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.

LETTER FROM THE BOARD

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:

Financial year/period	Historical amount of the transactions US\$'000	Previously approved annual cap amount US\$'000
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

LETTER FROM THE BOARD

- (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:

Financial year/period	Historical amount of the transactions <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

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- (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 (including the independent non-executive Directors) 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 (including the independent non-executive Directors) 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.

4. 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.

LETTER FROM THE BOARD

5. 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);

LETTER FROM THE BOARD

- (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.

6. Listing Rules implications

As at the Latest Practicable Date, CEC, through its wholly-owned subsidiary, Huada, held 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 CECI 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.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the New Products Sales and Distribution 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 New Products Sales and Distribution Transactions. The views of the Independent Board Committee on the New Products Sales and Distribution Agreement after considering the advice from Gram Capital are set out in the Letter from the Independent Board Committee on page 17 of this circular.

LETTER FROM THE BOARD

III. PROPOSED ADOPTION OF CHINESE NAME

As disclosed in the announcement of the Company dated 30 October 2020, the Board proposed to adopt a Chinese name of “晶門半導體有限公司” as the dual foreign name of the Company (the “Proposed Adoption of Chinese Name”).

Conditions of the Proposed Adoption of Chinese Name

The Proposed Adoption of Chinese Name is subject to the following conditions having been satisfied:

1. the passing of a special resolution by the Shareholders to approve the Proposed Adoption of Chinese Name at the EGM; and
2. the Registrar of Companies of the Cayman Islands granting approval for the Proposed Adoption of Chinese Name.

The relevant filings with the Registrar of Companies of the Cayman Islands will be made after the passing of the special resolution at the EGM. Subject to satisfaction of the above conditions, the Proposed Adoption of Chinese Name will take effect from the date on which the Registrar of Companies of the Cayman Islands enters the dual foreign name in Chinese of the Company on the register of companies maintained by it and issues a certificate of incorporation on adoption of dual foreign name. Thereafter, the Company will carry out all the necessary registration and/or filing procedures with the Companies Registry in Hong Kong.

Reason for the Proposed Adoption of Chinese Name

In order to align the Company’s corporate image and identity with the development of the Group’s businesses, particularly in the Greater China market, the Board believes that the Proposed Adoption of Chinese Name will benefit the Company’s future business development and is in the best interest of the Company and the Shareholders as a whole.

Effects of the Proposed Adoption of Chinese Name

The Proposed Adoption of Chinese Name will not, of itself, affect any rights of the Shareholders.

After the Proposed Adoption of Chinese Name has come into force, all existing share certificates of the Company bearing the existing name of the Company will continue to be good evidence of legal title to the Shares of the Company and will remain valid for trading, settlement, registration and delivery purposes. Any new share certificates of the Company issued after the Proposed Adoption of Chinese Name becoming effective will bear both the existing English name and the new Chinese name of the Company. There will not be any arrangement for free exchange of existing share certificates of the Company for new share certificates bearing the English name and the new Chinese name of the Company.

LETTER FROM THE BOARD

Further announcement(s) will be made by the Company to inform the Shareholders of, among other things, the effective date of the Proposed Adoption of Chinese Name as and when appropriate and the new Chinese stock short name of the Shares.

IV. EGM AND PROXY ARRANGEMENT

The notice of the EGM is set out on pages 33 to 34 of this circular. At the EGM, resolutions will be proposed to approve the New Products Sales and Distribution Transactions and the Proposed Adoption of New Chinese Name.

CEC and its associates will be required to abstain from voting at the EGM on the resolution to be proposed in relation to the New Products Sales and Distribution Transactions. To the best knowledge of the Company, as at the Latest Practicable Date, CEC, through its subsidiary Huada, was interested in 706,066,000 Shares, representing approximately 28.47% of the total issued share capital of the Company. Save as disclosed in this circular, no other shareholder has any material interest in the New Products Sales and Distribution Transactions and will be required to abstain from voting at the EGM on the resolution in respect of the same.

Pursuant to the Listing Rules, any vote of the 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 54, 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.

LETTER FROM THE BOARD

VI. RECOMMENDATIONS

Having considered the reasons set out herein, the Directors, including the independent non-executive Directors (having considered the advice of Gram Capital), are of the opinion that the New Products Sales and Distribution Agreement, the transactions contemplated thereunder, and the New Transaction Caps are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms (or better to the Group), and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favor of the resolution regarding the New Products Sales and Distribution Transactions to be proposed at the EGM.

The Directors are also of the opinion that the Proposed Adoption of Chinese Name is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favor of the resolution regarding the Proposed Adoption of Chinese Name to be proposed at the EGM.

VII. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the Appendix (General Information) on pages 29 to 32 of this circular.

Yours faithfully,
For and on behalf of
SOLOMON SYSTECH (INTERNATIONAL) LIMITED
WANG Wah Chi, Raymond
Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



**SOLOMON
SYSTECH**

SOLOMON SYSTECH (INTERNATIONAL) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2878)

12 November 2020

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to advise you in connection with the New Products Sales and Distribution Transactions, details of which are set out in the letter from the Board contained in the circular dated 12 November 2020 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms a part.

As at the Latest Practicable Date, we were not aware of any relationships or interests between the Company and the Independent Financial Adviser or any other parties that could be reasonably regarded as hindrance to the Independent Financial Adviser’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 New Products Sales and Distribution 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 18 to 28 of the Circular, we are of the opinion that the terms of New Products Sales and Distribution Transactions (including the New Transaction Caps) are on normal commercial terms and are fair and reasonable, and that New Products Sales and Distribution 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 favor of the relevant ordinary resolution to approve the New Products Sales and Distribution Agreement (including the respective New Transaction Caps) and transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Leung Heung Ying
*Independent
non-executive Director*

Sheu Wei Fu
*Independent
non-executive Director*

Yiu Tin Chong, Joseph
*Independent
non-executive Director*

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 New Products Sales and Distribution Agreement and the transactions contemplated thereunder for the purpose of inclusion in the Circular.



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

12 November 2020

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

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the sales and distribution of the Products within the Territory as contemplated under the New Products Sales and Distribution Agreement (the “**Transaction**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 12 November 2020 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.

Under the Existing Products Sales and Distribution Agreement, CEACI was appointed as one of the non-exclusive authorized distributors of the Group to sell and distribute the Group’s products within the Territory for the three years ending 31 December 2020. 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, 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.

With reference to the Board Letter, the Transaction constitutes continuing connected transaction of the Company and is subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirement under Chapter 14A of the Listing Rule.

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 Transaction are on normal commercial terms and are fair and reasonable; (ii) whether the Transaction is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and

LETTER FROM GRAM CAPITAL

(iii) how the Independent Shareholders should vote in respect of the resolution to approve the Transaction 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 Transaction. 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 the 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 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, CEACI or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transaction. 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 account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion.

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.

LETTER FROM GRAM CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of and reasons for the Transaction

Information on the Group

With reference to the Board Letter, 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.

Set out below are the financial information of the Group for the six months ended 30 June 2020 and the two years ended 31 December 2019 as extracted from the Company's interim report for the six months ended 30 June 2020 (the "**2020 Interim Report**") and the Company's annual report for the two years ended 31 December 2019 (the "**2019 Annual Report**"), respectively:

	For the year ended 31 December 2019	For the year ended 31 December 2018	Change from 2018 to 2019
	<i>US\$'000</i>	<i>US\$'000</i>	<i>%</i>
	(audited)	(audited)	
Revenue	108,323	98,148	10.37
Gross profit	21,328	28,168	(24.28)
Loss for the year	(27,805)	(13,768)	101.95
	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change from 1H 2019 to 1H 2020
	<i>US\$'000</i>	<i>US\$'000</i>	<i>%</i>
	(unaudited)	(unaudited)	
Revenue	58,574	56,599	3.49
Gross profit	15,132	9,973	51.73
Profit/(loss) for the period	4,332	(9,626)	N/A

As depicted from the table above, the Group's revenue and gross profit amounted to approximately US\$108.32 million and US\$21.33 million respectively for the year ended 31 December 2019 ("**FY2019**"), representing increase of approximately 10.37% and decrease of approximately 24.28% respectively as compared to those for the year ended 31 December 2018 ("**FY2018**"). With reference to the 2019 Annual Report, the Group recorded an increase in total shipments of around 4% year-on-year to approximately 308.7 million units in FY2019. The increase in revenue and shipments was mainly attributable to the growth of the large display driver IC

LETTER FROM GRAM CAPITAL

business. Nevertheless, owing to the intense price competition in the market and provisions made for slow moving inventories, the gross margin decreased by approximately 9 percentage points to approximately 19.69% mainly attributable to a change in the product mix of the Group. The Group's gross profit for FY2019 also decreased by approximately 24.28% as compared to that for FY2018. The Group's loss of approximately US\$27.81 million for FY2019 (increased by approximately 101.95% as compared to that for FY2018) was mainly attributable to diminished gross profit margin, decrease in net finance income due to a less favourable investment environment, in conjunction with certain non-recurring business restructure expenses and impairment loss of intangible assets.

As depicted from the table above, the Group recorded increase of approximately 3.49% and 51.73% in revenue and gross profit respectively for the six months ended 30 June 2020 ("1H2020") as compared to those for the corresponding period in 2019 ("1H2019"). With reference to the 2020 Interim Report, the significant improvement in the Group's gross profit was mainly attributable to the change in profit mix types during 1H2020. The improvement in gross profit, together with reduction in research and development costs, selling and distribution expenses and administrative expenses for 1H2020 as compared to those for 1H2019, led to a turnaround in the Group's loss-making position in 1H2019 to profit-making position in 1H2020.

With reference to the 2020 Interim Report, despite the fact that the lingering uncertainty in the global economy may continue to weigh on the Group's business as a whole, the advanced display business is expected to continue its strong growth. A number of new products and design win projects are expected to start contributing to the Group's revenue. For instance, its custom ICs are going to be widely used in digital signage benefiting both the advanced display and mobile display businesses.

Information on CEACI

With reference to the Board Letter, CEACI is a connected person of the Company. CEACI has more than 30 years' experience as professional technology distributors and in providing technology services. 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. 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.

Reasons for and benefits of entering into the Transaction

With reference to the Board Letter, the Group engaged CEACI 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 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.

LETTER FROM GRAM CAPITAL

We noted from the financial figures disclosed in the Board Letter, the 2019 Annual Report and the 2020 Interim Report that:

- (i) the historical amounts of the sale of the Products by the Group to CEACI for FY2018 and FY2019 (being approximately US\$13.60 million and US\$14.57 million respectively) represented approximately 13.86% and 13.45% respectively of the Group's revenue;
- (ii) the Group's total sales generated from the Territory (i.e. Mainland China and Hong Kong) amounted to approximately US\$79.79 million for FY2019, which contributed to approximately 73.66% of the Group's revenue; and
- (iii) the Group's total sales generated from the Territory (i.e. Mainland China and Hong Kong) amounted to approximately US\$36.94 million for 1H2020, which contributed to approximately 63.06% of the Group's revenue.

As illustrated above, (i) the sale of the Products by the Group to CEACI for each of FY2018 and FY2019 contributed to substantial amount of the Group's revenue; and (ii) the Territory represented the Group's important geographic markets in FY2019 and 1H2020.

Given the above, we consider that it is beneficial to the Group to continue to appoint CEACI as one of the non-exclusive authorized distributors of the Group to sell and distribute the Products within the Territory. Accordingly, we concur with the Directors that the Transaction is conducted in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

2. Principal terms of the New Products Sales and Distribution Agreement

Date:

22 October 2020

Parties:

The Company and CEACI

Nature of transaction:

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. The Group shall sell the Products directly to CEACI while CEACI shall 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 2021 and ending on 31 December 2023, subject to the approval by the Independent Shareholders.

LETTER FROM GRAM CAPITAL

Pricing basis and policy:

- (i) The prices for the Products shall be fixed case by case depending on the model(s) of the Products to be sold, and are determined on a cost-plus basis with reference to (a) the actual reasonable cost for manufacturing of the Products and (b) a fair and reasonable profit margin, which shall be agreed on by the parties after arm's length negotiation taking into account factors including (1) the historical prices for the Products, (2) the market prices of similar products sold within the Territory, (3) market information gathered by the parties, (4) quotations from independent third party(ies), and (5) the technology and quality of the Products. The profit margin will vary for different models of the Products but is expected to be within a range of 5% to 50%.
- (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 favourable 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.

Further details of terms are specified under the sub-section headed "Details of the terms of the New Products Sales and Distribution Agreement" of the Board Letter.

As advised by the Directors, in order to ensure that the pricing policy in respect of the Transaction is complied with, the Group established the internal control measures for the transactions contemplated under the Existing Products Sales and Distribution Agreement and will continue to apply such internal control measures for the Transaction. Pursuant to such internal control measures, 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 units 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. We consider the effective implementation of such internal control measures would help to ensure fair pricing of the Transaction.

LETTER FROM GRAM CAPITAL

For our due diligence purpose, we obtained certain distribution agreements entered into between the Group and independent third parties in 2020 (the “**Independent Agreements**”) and noted that (i) the pricing basis and payment terms of the Independent Agreements are the same as the New Products Sales and Distribution Agreement; and (ii) other key terms of the Independent Agreements are similar to those of the New Products Sales and Distribution Agreement.

With reference to the 2019 Annual Report and as confirmed by the Directors, the independent non-executive Directors have reviewed the Group’s continuing connected transactions (including the sales and distribution of products under the Existing Products Sales and Distribution Agreement) during FY2019 and confirmed that such continuing connected transactions were (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (d) within the annual cap.

In addition, the Company’s independent auditor was engaged to report on the Group’s continuing connected transactions (including the sales and distribution of products under the Existing Products Sales and Distribution Agreement) 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, provided a letter to the Board regarding the continuing connected transactions during FY2019 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) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the continuing connected transactions have exceeded the annual cap as set by the Company.

In light of the above, we are of the view that the terms of the New Products Sales and Distribution Agreement are on normal commercial terms and are fair and reasonable.

LETTER FROM GRAM CAPITAL

3. The New Transaction Caps

Set out below are (i) the existing annual caps and the historical transaction amount under the Existing Products Sales and Distribution Agreement; (ii) the historical amounts of the sale of LCD IC Products by the Group to the Existing LCD IC Products Distributor; and (iii) the New Transaction Caps:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ending 31 December 2020
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Existing annual caps	18,000	24,000	30,000
Utilisation rate	75.56%	60.70%	Undetermined yet
			For the nine months ended 30 September 2020
	For the year ended 31 December 2018	For the year ended 31 December 2019	For the nine months ended 30 September 2020
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Historical transaction amount under the Existing Products Sales and Distribution Agreement	13,601	14,568	13,907
Historical amounts of the sale of LCD IC Products by the Group to the Existing LCD IC Products Distributor	14,698	36,371	15,512
	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
New Transaction Caps	50,000	60,000	70,000

With reference to the Board Letter, 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;
- (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 FY2019 which amounted to US\$50.9 million in aggregate; and

LETTER FROM GRAM CAPITAL

- (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 (i.e. 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 (i.e. PMOLED) Touch and Display Driver Integration (i.e. TDDI) IC, and the world's first N-Color Active Matrix Electrophoretic Display (i.e. AMEPD) Driver IC Products.

As depicted from the above table, the sum of (i) the historical transaction amount under the Existing Products Sales and Distribution Agreement; and (ii) the historical amounts of the sale of LCD IC Products by the Group to the Existing LCD IC Products Distributor, was approximately US\$50.94 million in FY2019. Given that the new arrangement under the New Products Sales and Distribution Agreement involves the appointment of CEACI as the Company's non-exclusive authorized distributor on the sales and distribution of the LCD IC Products, it is reasonable to set the New Transaction Cap at US\$50 million for the year ending 31 December 2021.

We noted that the New Transaction Cap increased by 20% for the year ending 31 December 2022 (as compared to prior year) and approximately 16.67% for the year ending 31 December 2023 (as compared to prior year).

We searched over the internet to understand the prospect of the internet-of-things (IoT) industry. According to the website of Global Industry Analysts, Inc. (as stated in its website, it is a publisher of off-the-shelf market research, serving more than 41,000 clients from 36 countries), the PRC IoT market is forecasted to reach a projected market size of US\$169.1 billion by the year 2027 trailing a compounded annual growth rate ("CAGR") of 29.9% over the analysis period of 2020 to 2027.

According to an article published by International Data Corporation (a global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets) on 13 February 2020, 《IDC全球物聯網支持指南2019H2》(IDC Global IoT Supportive Guide 2019H2*) indicated that the PRC IoT general platform market will maintain high growth with CAGR of 40% in the coming five years.

With reference to the 2020 Interim Report, seeing the strong potential of micro-LED which is said to be emerging as a next generation display technology featuring ultra-high display brightness and fine pixel pitch, the Group has started engaging in the development of this ground-breaking technology since 2016. Over the years, the Group has made significant progress through strategic collaborations with leading companies. During 1H2020, the Group received orders that paved the way for applying micro-LED technology to mass production.

LETTER FROM GRAM CAPITAL

With reference to the 2020 Interim Report, in 2020, the Group expected to commence the mass production of PMOLED, TDDI IC, and the world's first N-Color AMEPD Driver IC with the design win in the period under review. Both ICs feature the latest technology, and this will allow the Group to capture new trends and fulfil market needs. As confirmed by the Directors, the Group commenced trial production run of the aforesaid products with new technology in the second half of 2020 and aims to commence mass production in 2021 upon successful trial production run. Mass production of the aforesaid products is expected to increase the Group's sales amount.

Given the above, we consider that it is reasonable to incorporate the aforementioned increases in the New Transaction Caps for the two years ending 31 December 2023.

Having considered the above, we consider that the New Transaction Caps are fair and reasonable.

Shareholders should note that as the New Transaction Caps for the three years ending 31 December 2023 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, and they do not represent forecasts of revenue to be generated from the Transaction. Consequently, we express no opinion as to how closely the actual revenue to be generated from the Transaction will correspond with the New Transaction Caps.

4. Listing Rules implication regarding the Transaction

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 value of the Transaction must be restricted by New Transaction Caps for the period concerned under the New Products Sales and Distribution Agreement; (ii) the terms of the Transaction (including the New Transaction 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 Transaction 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 Transaction (i) has not been approved by the Board; (ii) was not, in all material respects, in accordance with the pricing policies of the Group; (iii) was not entered into, in all material respects, in accordance with the relevant agreement governing the Transaction; and (iv) has exceeded the New Transaction Caps. In the event that the total amount of the Transaction is anticipated to exceed the New Transaction Caps, or that there is any proposed material amendment to the terms of the Transaction, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

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 Transaction and thus the interest of the Independent Shareholders would be safeguarded.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transaction are on normal commercial terms and are fair and reasonable; and (ii) the Transaction is conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transaction and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

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

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *for identification purpose only*

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 SFO), as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or 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	Approximate % of the issued share capital of the Company
Independent Non-executive Directors					
Leung Heung Ying	Long	–	2,400,000	2,400,000	0.10%
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 Jun	Long	–	–	–	–
Ma Yuchuan	Long	–	–	–	–
Yu Jian	Long	–	–	–	–
Lo Wai Ming	Long	33,572,179	–	–	1.35%
Executive Directors					
Wang Wah Chi, Raymond	Long	600,000	7,000,000	–	0.31%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

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	Capacity	Position	Number of shares held	Approximate % of the issued share capital of the Company
Huada Semiconductor Co., Ltd	Beneficial owner	Long	706,066,000	28.47%
China Electronics Corporation	Interest of controlled corporation	Long	706,066,000	28.47%

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.

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	Positions held
Mr. Ma Yuchuan	Vice general manager of Huada, a subsidiary of CEC
Dr. Li Jun	Director, department of general administration of CEC
Mr. Yu Jian	Chief financial officer of Huada, a subsidiary of CEC

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 as 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 2019 (being the date to which the latest published audited 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 2019, being the date to which the latest published audited accounts of the Group were made up.

EXPERT AND CONSENT

The following is the qualification of the expert which has given opinion or advice which is contained in this circular:

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

As at the Latest Practicable Date, Gram Capital did not have any shareholding in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited accounts of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the forms and contexts in which they appear. The letter of the Independent Financial Adviser contained herein was issued on 12 November 2020 and was made by Gram Capital for incorporation in this circular.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the principal place of business of the Company in Hong Kong at 6/F, No. 3, Science Park East Avenue Hong Kong Science Park Shatin, New Territories, Hong Kong, from any weekday (except public holidays) from the date of this circular up to and including 2 December 2020 (both days inclusive):

- (a) the letter from the Independent Financial Adviser – Gram Capital Limited as set out in this circular;
- (b) the letter from the Independent Board Committee as set out in this circular;
- (c) the Existing Products Sales and Distribution Agreement;
- (d) the New Products Sales and Distribution Agreement; and
- (e) the written consent referred to in the section headed “Expert and consent” in this Appendix.

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 an extraordinary general meeting of Shareholders of Solomon Systech (International) Limited (the “**Company**”) will be held at 2:00 p.m. on 4 December 2020, 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. Capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company unless otherwise specified.

ORDINARY RESOLUTION

1. “**THAT** the New Products Sales and Distribution Agreement and the 2021, 2022 and 2023 annual caps of US\$50 million, US\$60 million and US\$70 million, respectively, be and are hereby approved; and the Board of the Company be and is hereby authorized to take all actions necessary or expedient in its opinion to implement and/or give effect to the New Products Sales and Distribution Agreement.”

SPECIAL RESOLUTION

2. “**THAT** subject to the approval of the Registrar of Companies in the Cayman Islands, “晶門半導體有限公司” be adopted as the dual foreign name of the Company with effect from the date of issuance of the certificate of incorporation on adoption of the dual foreign name (the “**Adoption of Chinese Name**”) and that any one or more of the Directors or the secretary of the Company or the registered office provider of the Company be and are hereby authorized to do all such acts, deeds and things and execute all such documents and make all such arrangements as he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Adoption of the Chinese Name and to attend to any registration and/or filing in the Cayman Islands or Hong Kong for and on behalf of the Company.”

On behalf of the Board
SOLOMON SYSTECH (INTERNATIONAL) LIMITED
WANG Wah Chi, Raymond
Chief Executive Officer

Hong Kong, 12 November 2020

NOTICE OF EXTRAORDINARY GENERAL MEETING

As at the date of this notice, the Board comprises (a) Executive Director – 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.

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 54, 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 Tuesday, 1 December 2020 to Friday, 4 December 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 30 November 2020.
- (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 Listing Rules. The results of the poll will be published on the websites of the Stock Exchange (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 EGM is enclosed and such form is also published on the websites of the Stock Exchange (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 54, 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.