

Corporate Governance Report

One of the Group's long-term corporate developments is to continuously enhance its corporate governance standards. Throughout the year, the Group complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules then in effect. Having made specific enquiry of all directors, the Group confirms that save as referred to below all of the Company's directors did comply with the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. Mr. CHOY Kwok Hung, Patrick and Mr. LAI Woon Ching advised the Company that due to an inadvertent oversight, certain of the filings required under the Securities and Futures Ordinance and the related notification to the Company were not made within the prescribed time limit. Apart from complying with the requirements set forth in the Listing Rules, the Group does keep track of the latest corporate governance practices overseas.

Board of Directors

The Board of Directors ("Board") currently consists of a non-executive Chairman, four executive directors (including the Managing Director), two non-executive directors and three independent non-executive directors. Generally, at every annual general meeting of the Company one-third of the directors (other than the Managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from office by rotation. A retiring director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The membership of the Board represents wide background and rich industry experience.

All independent non-executive directors bring their wealth of experience to the Board and make active contribution to the Group. They closely monitor the developments of the Group and freely express their opinions at Board meetings. All independent non-executive directors, except as disclosed in this annual report, do not have any business or financial interests with the Group and confirmed their independence to the Group pursuant to Rule 3.13 of the Listing Rules.

In 2004, but before the current full Board was constituted, the Board comprised:

- (i) two directors (namely, CHANG Ching Yi, Steven and LEUNG Kwong Wai until 2nd February 2004);
- (ii) four directors (namely, CHANG Ching Yi, Steven, LEUNG Kwong Wai, WONG Yuet Leung, Frankie and HUANG Hsing Hua from 3rd to 24th February 2004); and
- (iii) nine directors (namely, CHANG Ching Yi, Steven, LEUNG Kwong Wai, WONG Yuet Leung, Frankie, HUANG Hsing Hua, LAM Pak Lee, LAI Woon Ching, LO Wai Ming, CHOY Kwok Hung, Patrick and SUN, Patrick from 25th February to 18th March 2004)

and each of such Board meetings was attended by all the directors then in office.

After the full Board was constituted in March 2004, the Board held 5 meetings, for the discussion and approval of important items such as initial public offering, 2004 interim results, 2004 annual results, dividends, the Group's annual budget, business and investments etc. In addition, the Group's management also met with certain non-executive directors to seek their views on certain business or operational matters. The attendance record of the Board meetings is as follows:

Number of meetings**5**

Members of the Board	Meetings Attended	Attendance Rate
Chairman		
LAM Pak Lee	4 / 5	80%
Executive Directors		
LEUNG Kwong Wai	5 / 5	100%
HUANG Hsing Hua	5 / 5	100%
LAI Woon Ching	5 / 5	100%
LO Wai Ming	4 / 5	80%
Non-executive Directors		
CHANG Ching Yi, Steven	4 / 5	80%
WONG Yuet Leung, Frankie	5 / 5	100%
Independent Non-executive Directors		
CHOY Kwok Hung, Patrick	4 / 5	80%
SUN, Patrick	5 / 5	100%
KAO Kuen, Charles	4 / 5	80%
Average Attendance Rate		90%

Chairman

The Chairman of the Board is responsible for ensuring that all directors act in the best interest of shareholders. He is fully accountable to the shareholders and contributes to the Board and the Group on all top-level or strategic decisions.

Managing Director

The Managing Director is responsible for running the Group and executing the strategies adopted by the Board. He leads the Group's management team in accordance with the directions set by the Board. He is responsible for ensuring that proper internal control system is in place and that the Group's business conforms to applicable laws and regulations. The Managing Director chairs the monthly operations review and staff meeting, as well as the quarterly employees' communication meeting. Accordingly, the role of the Managing Director (which resembles that of a chief executive officer as referred to in the Listing Rules) is different from that of the non-executive Chairman.

Non-executive Directors

Each of the non-executive directors (including independent non-executive directors) of the Company entered into a one-year service contract with the Company that expired in 2005 and was extended to 30th June 2006. The commencement dates of each of their appointments are as follows:

Commencement Date

Non-executive Directors

CHANG Ching Yi, Steven	21st November 2003
WONG Yuet Leung, Frankie	3rd February 2004
LAM Pak Lee	25th February 2004

Independent Non-executive Directors

CHOY Kwok Hung, Patrick	25th February 2004
SUN, Patrick	25th February 2004
KAO Kuen, Charles	15th March 2004

Audit Committee

The Group had established an Audit Committee with written terms of reference as suggested under the Code of Best Practice set out in Appendix 14 of the Listing Rules. The Audit Committee comprises one non-executive director and two independent non-executive directors. The Chairman of the Audit Committee is Mr. SUN, Patrick an independent non-executive director. Mr. Sun is an experienced investment banker with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules for the purpose of such appointment.

The meetings of the Audit Committee are held not less than twice a year to review and discuss the interim and annual financial statements respectively. Additional meetings may also be held by the Committee from time to time to discuss special projects or other issues which the Committee considers necessary. The external auditors of the Group may request a meeting if they consider that one is necessary.

The authorities of the Audit Committee include (1) investigation of any activity within its terms of reference; (2) seeking any information it requires from any employee; and (3) obtaining outside legal or other independent professional advice if it considers necessary.

The main duties of the Committee are as follows:

- To consider the appointment of the external auditors, the audit fee, and any question of resignation or dismissal
- To discuss with the external auditors the nature and scope of the audit
- To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard
- To develop and implement policy on the engagement of an external auditor to supply non-audit services
- To review the Group's interim and annual financial statements before submission to the Board
- To discuss problems and reservations arising from the interim and final audits and any matters that the external auditors may wish to discuss
- To review the external auditors' management letter and the management's response
- To review the Group's statement on internal control system prior to endorsement by the Board
- To review the internal audit program, and ensure that the internal audit function is adequately resourced and has appropriate standing with the Group
- To consider the major findings of any internal investigation and the management's response
- To consider other topics, as defined by the Board

The attendance record of the Audit Committee meetings is as follows:

Number of meetings		2
Members of the Audit Committee	Meetings Attended	Attendance Rate
SUN, Patrick	2 / 2	100%
CHOY Kwok Hung, Patrick	2 / 2	100%
WONG Yuet Leung, Frankie	2 / 2	100%
Average attendance rate		100%

Throughout the year, the Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Group. As regards external auditors' remuneration, non-audit service was provided by the Group's external auditors during the year under review. The amount of external auditors' remuneration has been disclosed in the section of Financial Statements.

Remuneration Committee

The Remuneration Committee comprises one non-executive director and two independent non-executive directors. A majority of the votes in the Remuneration Committee are exercisable by independent non-executive directors.

The meetings of the Remuneration Committee shall normally be held not less than once a year to review and approve principally the remuneration of the Managing Director and executive directors of the Group. The Remuneration Committee, currently chaired by Mr. CHANG Ching Yi, Steven has delegated the Managing Director with authority to approve the remuneration of all the employees of the Group below the rank of executive directors. For policy related remuneration schemes, they will be decided by the Board.

The attendance record of the Remuneration Committee meetings is as follows:

Number of meetings		2
Members of the Remuneration Committee	Meetings Attended	Attendance Rate
CHANG Ching Yi, Steven	2 / 2	100%
CHOY Kwok Hung, Patrick	2 / 2	100%
SUN, Patrick	2 / 2	100%
Average attendance rate		100%

In 2004, the Remuneration Committee determined the policy for the remuneration of the executive directors, assessed their performances as well as approved their employment contracts with the Group.

Nomination Committee

The Nomination Committee comprises the non-executive Chairman, the Managing Director and one non-executive director. The meeting of the Nomination Committee is arranged and held on an as-needed basis.

The Nomination Committee, currently chaired by Mr. LAM Pak Lee, will identify qualified candidates to fill Board membership whenever such vacancy arises. It will nominate such candidates for the Board to consider, and regularly review the composition of the Board as well as make suggestions as to any change that may be required.

The attendance record of the Nomination Committee meeting is as follows:

Number of meetings	1	
Members of the Nomination Committee	Meetings Attended	Attendance Rate
LAM Pak Lee	1 / 1	100%
LEUNG Kwong Wai	1 / 1	100%
CHANG Ching Yi, Steven	1 / 1	100%
Average attendance rate		100%

The Nomination Committee held one meeting in 2004. It reviewed the composition of the Board and considered that there was no immediate need to make any change in relation to the Board membership.

Internal Controls

The internal controls within the Group are designed to help the Group achieve key initiatives, and represent the Group's efforts at protecting its physical assets, information and technology. The presence of internal controls empowers the Group to implement best business practices under dynamic and challenging business environments. In brief, the Group's internal controls cover a number of in-house procedures and policies. Examples are compliance with the Group's Code of Conduct, adherence to procedure manuals, confidentiality and information disclosure, documentation, authentication of transactions and so on.

Code of Conduct

Since it was founded in July 1999, the Group has always held a strong belief that the future of the Group's success will rely on its trustworthiness, goodwill and integrity with respect to its dealing with customers, suppliers, employees and governments. The Group has therefore established a set of Code of Conduct for all of its employees to follow. Adherence to the Code is the responsibility of each employee of the Group and is a condition of continued employment. The Code of Conduct deals with key subject areas such as proper use of the Group's funds and assets, customer / supplier / government relationships, conflicts of interest and operating procedures.

Corporate Transparency and Investor Relations

The Group reports to shareholders semi-annually on the Group's business and financial conditions. Ever since the Group became one of the first IC design companies listed on the Main Board of the Hong Kong Stock Exchange, the management had been actively participating in investor forums and conferences in the region as well as meeting investors during non-deal roadshows, with the purpose of sharing the Group's business model and industry dynamics with the investors.

It is the Group's intention to hold analyst meetings and press conference immediately after the announcement of the interim and annual results. Last July, the Group conducted the first interim results announcement and interacted directly with investors, analysts and the media, providing them with insightful information and answering all their queries. From the date of Listing up to 31st December 2004, the Group met 114 analysts or investors at its office, conducted more than 30 pre-arranged conference calls with analysts or investors, organized a non-deal roadshow immediately after the interim results announcement in late July, met more than 80 investors at four investor conferences or forums in Taiwan, Hong Kong, New York and Singapore, made a speech at a private equity conference in Hong Kong and participated in Forbes' Global CEO Conference in Hong Kong.

As part of the Group's efforts to promote its image and publicity, the Group also leverages the networks and experience of public relations firm. During 2004, a total of 23 media interviews were conducted with TV, radio, newspapers and with some well known magazines.

The voice of investors is always invaluable to the Group. In order to improve the communication between the Group and the investors, the Group has recently begun to distribute investor feedback form to investors after each meeting. By which, the Group is able to listen to the investors' views and concerns, and understand them better. The inputs given by investors will be evaluated regularly, summarized and presented to the management team for reference.

The website of the Group is also updated constantly to inform the investors and the general public of the latest development of the Group.

Shareholders' Rights

The shareholders' rights are of all time highly regarded by the Group. The Group will endeavor that shareholders know how to exercise their rights whenever they wish. The Group has its channels of communication open for shareholders to express their ideas or exert their rights.

With regard to general enquiry, a shareholder may contact the Group's Share Registrar directly. Information on proceedings at general meetings, votes of members, proxies, dividends and reserves, transfer of shares and other information is detailed in the Group's Memorandum and Articles of Association, which may be inspected at the Group's Share Registrar. The contact details of the Group's Share Registrar appear at the end of this report. In the event that a shareholder wishes to put forward a proposal to the Board, he may put forth his enquiry in writing to the Group's Corporate Communications Manager who will act on the subject matter accordingly.