

# Corporate Governance Report

The corporate governance practices weigh heavily on the Group's success. And it is the very responsibility of the management to proactively observe the latest corporate governance developments in Hong Kong and overseas, particularly the UK and USA. Throughout the year, the Group complied with the applicable Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "Code"), and there was no deviation from the Code provisions except that the Article 112 of the Articles of Association of the Company provides that the Managing Director shall not be subject to rotation at the annual general meeting.

## 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. Schedule of matters reserved for the Board include:

- Strategy and management
- Group structure and capital
- Financial reporting and control
- Internal controls
- Contracts
- Communication
- Board membership and other appointments
- Remuneration
- Authority and delegation
- Corporate governance
- Policies
- Others

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 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 for 2005 is as follows:

<b>Number of meetings</b>	<b>7</b>	
<b>Members of the Board</b>	<b>Meetings attended</b>	<b>Attendance rate</b>
<b>Chairman</b>		
LAM Pak Lee	7	100%
<b>Executive directors</b>		
LEUNG Kwong Wai	7	100%
HUANG Hsing Hua	6	86%
LAI Woon Ching	7	100%
LO Wai Ming	7	100%
<b>Non-executive directors</b>		
CHANG Ching Yi, Steven	7	100%
WONG Yuet Leung, Frankie	7	100%
<b>Independent non-executive directors</b>		
CHOY Kwok Hung, Patrick	6	86%
SUN, Patrick	7	100%
KAO Kuen, Charles	4	57%
<b>Average attendance rate</b>		<b>93%</b>

The Directors of the Company acknowledge their responsibility to present a balanced, clear and understandable assessment in the Financial Statements of the annual and interim reports. The Directors have prepared the Financial Statements on a going concern basis, with supporting assumptions or qualifications as necessary. When the Directors are aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties will be clearly and prominently set out and discussed at length in this Corporate Governance Report.

### ***Chairman***

The Chairman of the Board, Dr. LAM Pak Lee, 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. Specifically, he was assigned with four key roles to perform, namely leading the Board, advising on the Group's key strategies, ensuring the Group's effective communication to the stakeholders and implementing a high level of standard in corporate governance.

### ***Managing Director***

The Managing Director, Mr. LEUNG Kwong Wai, 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 a 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 bi-weekly 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***

Normally before each Board meeting, non-executive directors will have a private discussion with the non-executive Chairman on the Group's matters without the presence of executive directors, including the Managing Director. In addition, non-executive directors, according to the Group's policy, can have access to Group's employees at anytime that they think appropriate. Each of the non-executive directors (including independent non-executive directors) of the Company entered into a service contract with the Company that will expire on 30 June 2006. The first reappointment dates of each of their appointments are as follows:

	<b>First reappointment date</b>
<b>Non-executive director</b>	
CHANG Ching Yi, Steven	21 November 2004
WONG Yuet Leung, Frankie	3 February 2005
LAM Pak Lee	25 February 2005
<b>Independent non-executive director</b>	
CHOY Kwok Hung, Patrick	25 February 2005
SUN, Patrick	25 February 2005
KAO Kuen, Charles	15 March 2005

### **Audit Committee**

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 it is necessary.

The authorities of the Audit Committee include (1) investigating 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 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:

<b>Number of meetings</b>	<b>3</b>	
<b>Members of the Audit Committee</b>	<b>Meetings attended</b>	<b>Attendance rate</b>
SUN, Patrick	3	100%
CHOY Kwok Hung, Patrick	3	100%
WONG Yuet Leung, Frankie	3	100%
<b>Average attendance rate</b>	<b>100%</b>	

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 Note 7 to the financial statements.

### Remuneration Committee

The Remuneration Committee comprises one non-executive director (also the Chair of the Committee) and two independent non-executive directors. A majority of the votes in the Remuneration Committee are exercisable by independent non-executive directors. The Committee does not deal with the

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remuneration of non-executive directors which shall be a matter for the Chairman and executive directors of the Board. No director or senior executive will be involved in any discussion in connection with his or her own remuneration. The Remuneration Committee also consults the non-executive Chairman about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.

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 main duties of the Committee are as follows:

- To determine the framework and broad policy for the remuneration of the Chairman, Managing Director and executive directors
- To approve remuneration package to any new hire or the respective bonus in excess of an amount as specified by the Committee from time to time
- To delegate the relevant responsibility and to receive adequately detailed reports of all exercises of such delegated responsibility
- To review the appropriateness and relevance of the remuneration policy
- To approve the performance related pay schemes operated by the Group
- To review all share incentive plans for approval by the Board
- To ensure the contractual terms on termination with senior executives and any payments thereof are fair to the individual and the Group
- To give due regard to legal requirements, tax provisions and recommendations of the Listing Rules and guidelines in respect of remuneration package for senior executives
- To review annually and take note of the remuneration trends of the Group and obtain reliable and up-to-date information about remuneration packages of other closely comparable companies
- To report to the Board on its proceedings after each meeting

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

<b>Number of meetings</b>	<b>4</b>	
<b>Members of the Remuneration Committee</b>	<b>Meetings attended</b>	<b>Attendance rate</b>
CHANG Ching Yi, Steven	4	100%
CHOY Kwok Hung, Patrick	3	75%
SUN, Patrick	4	100%
<b>Average attendance rate</b>		<b>92%</b>

In 2005, 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. Details of remuneration of directors can be obtained in the section of Financial Statements.

### Nomination Committee

The Nomination Committee comprises the non-executive Chairman (also the Chair of the Committee), the Managing Director and one non-executive director. The meeting of the Nomination Committee shall meet before the annual general meeting, or at other times as required by the Chairman of the Committee.

The Nomination Committee, currently chaired by Dr. LAM Pak Lee, will identify qualified candidates to fill the 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 main duties of the Committee are as follows:

- To review the structure, size and composition of the Board regularly and to make recommendations to the Board with regard to any changes required
- To evaluate the balance of skills, knowledge and experience of the Board
- To identify and nominate any candidate for the Board's approval
- To review the leadership needs and succession plans of the Group in relation to both directors and senior executives
- To make recommendations for the appointment and removal of the Chairman, Managing Director or any director
- To make recommendations to the Board on the re-appointment of any non-executive director at the conclusion of his specified term of office
- To report to the Board on its proceedings after each meeting

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

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

## Corporate Governance Report (continued)

The Nomination Committee held one meeting in 2005. It reviewed the composition of the Board and considered that the Group might need additional independent non-executive directors, whom should be experienced in the Group's business or should possess professional qualification.

### Investment Committee

The Investment Committee comprises three executive directors (Managing Director currently being the Chair) and one non-executive director. The meeting of the Investment Committee shall meet at the request of any member of the Committee and will normally be joined by the Group's finance director and head of corporate development.

The Investment Committee, currently chaired by Mr. LEUNG Kwong Wai, will evaluate and approve any equity investment of US\$5 million or less with the support of corporate development division. Any equity investment exceeding that amount will be proposed by the Committee for the Board's approval. The Committee is authorized, at the expense of the Group, to take such external professional advice as it considers necessary and to arrange such advisers to attend meetings.

The main duties of the Committee are as follows:

- To assist the Board in discharging its duties and responsibilities in relation to investment activities (excluding treasury or cash management)
- To assist the Board with all of its policy setting responsibilities related to investments
- To establish and document the basic investment principles and beliefs held by the Committee as well as the Code of Ethics for avoiding possible conflict of interest
- To have all necessary access and authority to seek information from management to fulfill its objectives, duties and responsibilities
- To review the appointment of external professional advisers
- To review and monitor investment performance
- To review and advise on additions to and dispositions of existing investments
- To review annually terms of reference of the Committee and to recommend to the Board any required changes
- To submit an annual work report to the Board summarizing the Committee's activities, findings, recommendations and results for the past year

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

<b>Number of meetings</b>	<b>1</b>	
<b>Members of the Investment Committee</b>	<b>Meetings attended</b>	<b>Attendance rate</b>
LEUNG Kwong Wai	1	100%
LO Wai Ming	1	100%
LAI Woon Ching	1	100%
CHOY Kwok Hung, Patrick	0	0%
<b>Average attendance rate</b>		<b>75%</b>

The Investment Committee was established in late November and held one meeting in 2005. With more than 20 investment cases studied by the corporate development division, the Committee decided to further study the merits of an investment case.

## **Others**

### ***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.

During 2005, the Audit Committee conducted a review of the Group's system of internal control and was satisfied that the Group complied with the code provisions of the Code.

### ***Model Code and Code of Conduct***

The Group made specific enquiry of all directors as to whether they complied with the required standard set out in the Model Code (Appendix 10 of the Listing Rules) regarding their securities transactions. It was confirmed that there was full compliance. As regards the shares held by directors, the details are listed in the section of Report of the Directors. Pursuant to Appendix 14 paragraph A.5.4, the Group established its own written guidelines on no less exacting terms than the Model Code for employees likely to be in possession of unpublished price sensitive information in respect of their dealings in the securities of the Company. All relevant employees conformed to the Group's own guidelines throughout the year 2005.

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 of Conduct 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 its 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 Group's management has 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. In 2005, the Group made its first annual results announcement and the second interim results announcement. The management interacted directly with investors, analysts and the media, providing them with insightful information and answering all their queries. Also, on 8 April 2005, the 2005 annual general meeting of the Group was held at Island Shangri-La hotel, Hong Kong at 4:00pm. During said the annual general meeting, the following items were discussed:

- Report of the Directors and Auditors' Report
- Final dividend
- Election of directors
- Authorization to fix the directors' remuneration
- Appointment of Auditors
- Authorization to repurchase the Group's shares
- General mandate to issue the Group's shares
- Extension of the general mandate

All resolutions relating to the above items were passed unanimously without any single vote cast against.

For the year under review, the Group conducted 133 investor or analyst meetings, and 41 conference calls with them. On average, the Group had 4.2 meetings or conference calls with the investment community per week. Adding to this busy schedule was the participation in 4 non-deal roadshows in locations like Hong Kong, Singapore, Tokyo, London, New York, Boston and San Francisco, and 6 investor related functions such as corporate days, conferences or luncheons.

As part of the Group's efforts to promote its image and publicity, the Group also leverages the networks and experience of a public relations firm. During 2005, a total of 37 media interviews were conducted on TV and radio, in 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, since listing the Group has been collecting ideas from shareholders and feedback from the investment community. The Group also appreciates the opportunity to meet its shareholders face-to-face.

There was no change in the Company's Articles of Association for 2005. To the best knowledge of the Group, as of 31 December 2005, there were 4 institutional investors holding more than 23% of the Company's shares. Another 4% or so shareholding was held by one of the original venture capital shareholders. The shareholding of the Board together held roughly 9% of the Company's shares. The remainder of the shareholding, approximately 63%, is believed to be in public hands.

The website of the Group ([www.solomon-systech.com](http://www.solomon-systech.com)) is also updated constantly to inform the investors and the general public of the latest information of the Group, for example the important dates for shareholders in the coming year and a soft copy of this Corporate Governance Report. Further information for shareholders can be found at the back of this report.

### ***Shareholders' Rights***

The shareholders' rights are for all time highly regarded by the Group. The Group will endeavor that shareholders know how to exercise their rights. 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 Company'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 Company's Memorandum and Articles of Association, which may be inspected at the Company's Share Registrar. The contact details of the 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.