

CORPORATE GOVERNANCE REPORT

The Board of Directors (“Board”) and the management of the Group are committed to achieve and maintain high standards of corporate governance, which it considers as critical in safeguarding the integrity of its operations and maintaining investors’ trust in the Company. The management also actively and constantly observes latest corporate governance developments in Hong Kong and overseas, particularly in the UK and USA. Throughout the year, the Company complied with all applicable Code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules (the “Code”), and there was no deviation from the Code provisions.

Board of Directors

The Board currently consists of five executive directors (including the Managing Director), two non-executive directors and four independent non-executive directors (including the Chairman). 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

Matters not specifically reserved to the Board and necessarily relate to the daily operations of the Group are delegated to the management under the supervision of the respective directors and the leadership of the Managing Director.

At every annual general meeting of the Company, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation, provided that every director shall retire from office at least once every three years or within such other period as the rules of the Stock Exchange may from time to time prescribe. A retiring director shall be eligible for re-election and shall continue to act as a director throughout the meeting at which he retires. The membership of the Board represents wide background and rich industry experience.

The Company has complied with Rules 3.10 (1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors among whom one has to have appropriate professional qualifications, or accounting or related finance management expertise. All Independent Non-executive Directors bring their wealth of experience to the Board and make active contribution to the Group. They closely monitor the Group’s development and freely express their opinions at the Board meetings. All Independent Non-executive Directors, except as disclosed in this annual report, do not have any business

with or financial interests in the Group and confirmed their independence to the Group pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules. During the year, 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 2006 is as follows:

Number of meetings	9	
Members of the Board	Meetings attended	Attendance rate
Chairman		
LAM Pak Lee (Redesignated as Non-executive Director effective from 1 January 2007)	8	89%
Executive directors		
LEUNG Kwong Wai	9	100%
HUANG Hsing Hua	8	89%
LAI Woon Ching	8	89%
LAM Shun Fu, Percy (appointed on 23 October 2006)	3	100%
LO Wai Ming	7	78%
Non-executive directors		
CHANG Ching Yi, Steven	5	56%
WONG Yuet Leung, Frankie (Redesignated as Independent Non-executive Director effective from 1 January 2007)	9	100%
Independent non-executive directors		
CHOY Kwok Hung, Patrick	8	89%
KAO Kuen, Charles	7	78%
SUN, Patrick (as Non-executive Chairman of the Board effective from 1 January 2007)	9	100%
Attendance rate		88%

Non-executive Chairman

In 2006, the Non-executive Chairman of the Board, Dr. LAM Pak Lee, was responsible for ensuring that all directors act in the best interest of shareholders. He was fully accountable to the shareholders and contributed 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 the Group on key strategies, ensuring the Group's effective communication with 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 functions as the Chief Executive Officer who 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. The role of the Chairman is segregated from that of the Chief Executive Officer as stipulated in the Listing Rules.

CORPORATE GOVERNANCE REPORT (continued)

Non-executive Directors

At least once a year, non-executive directors and also independent 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, may access the Group's employees at anytime they think appropriate. Each of the non-executive directors (including independent non-executive directors) of the Company has entered into a service contract with the Company that will expire on 30 June 2008. The first reappointment date of each non-executive director is listed below:

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

* WONG Yuet Leung, Frankie redesignated as independent non-executive director of the Company effective from 1 January 2007

Audit Committee

The Audit Committee comprises three independent non-executive directors. The Chairman of the Audit Committee was 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 chairmanship of Audit Committee was taken up by Mr. WONG Yuet Leung, Frankie in 2007 while Mr. Sun remained as a member of the committee.

The Committee meets not less than twice a year to review and discuss the interim and annual consolidated financial statements respectively. Additional meetings may also be held by it from time to time to discuss special projects or other issues it considers necessary. The independent auditor of the Group may request a meeting if they consider it 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 if required.

The main duties of the Audit Committee are as follows:

- To consider the appointment of the independent auditor, the audit fee, and any question of resignation or dismissal
- To discuss with the independent auditor the nature and scope of the audit

- To review and monitor the independent auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards
- To develop and implement policy on the engagement of an independent auditor to supply non-audit services
- To review the Group's interim and annual consolidated financial statements before submission to the Board
- To discuss problems and reservations arising from the interim review and final audits and any matters that the independent auditor may wish to discuss
- To review the independent auditor's 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 plan, 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 or internal audit reports and the management's response
- To consider other topics, as defined by the Board

The attendance record of Audit Committee meetings for 2006 is as follows:

Number of Meetings		2	
Members of the Audit Committee	No. of Meetings attended	Attendance rate	
SUN, Patrick	2	100%	
CHOY Kwok Hung, Patrick	2	100%	
WONG Yuet Leung, Frankie	2	100%	
Attendance rate		100%	

Throughout the year, the Audit Committee discharged its prescribed responsibilities, and reviewed and discussed the financial results and internal control system of the Group.

Remuneration Committee

The Remuneration Committee comprises one non-executive director (also the Chairman 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 remuneration of non-executive directors which shall be a matter for the 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 has access to professional advice if considered necessary. The Committee consulted the head of human resources in respect of human resources policy and market as well as other company information.

CORPORATE GOVERNANCE REPORT (continued)

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 Company. The Remuneration Committee, currently chaired by Mr. CHANG Ching Yi, Steven has delegated to the Managing Director the 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 Remuneration 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 for any new hire or the respective bonus in excess of an amount as specified by the Committee from time to time
- To delegate 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 its proceedings to the Board after each meeting

The attendance record of Remuneration Committee meetings for 2006 is as follows:

Number of Meetings	4	
Members of the Remuneration Committee	No. of Meetings attended	Attendance rate
CHANG Ching Yi, Steven	4	100%
CHOY Kwok Hung, Patrick	4	100%
SUN, Patrick	4	100%
Attendance rate		100%

In 2006, the Remuneration Committee determined the remuneration policy for 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 Consolidated Financial Statements section.

Nomination Committee

In 2006, the Nomination Committee comprised the Non-executive Chairman (also the Chair of the Committee), the Managing Director and one non-executive director. The Nomination Committee generally meets before the annual general meeting, or at other times as required by the Chairman of the Committee.

The Nomination Committee, 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 on any change that may be required. The chairmanship of Nomination Committee was taken up by Mr. SUN, Patrick in 2007 and Dr. Lam withdrew himself as a member of the Committee.

The main duties of the Nomination 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 its proceedings to the Board after each meeting

The attendance record of Nomination Committee meetings for 2006 is as follows:

Number of Meetings	2	
Members of the Nomination Committee	No. of Meetings attended	Attendance rate
LAM Pak Lee	2	100%
CHANG Ching Yi, Steven	2	100%
LEUNG Kwong Wai	2	100%
Attendance rate		100%

Investment Committee

The Investment Committee comprises three executive directors and one independent non-executive director. It shall meet at the request of any member of the Committee and its meetings will be facilitated by the Vice President, Corporate Development, and the Vice President, Finance will participate in the discussion.

The Investment Committee, currently chaired by Mr. LEUNG Kwong Wai, will evaluate and approve any equity investment of US\$2 million or less with the support from the head of Corporate Development. The head of Finance will be involved in the review. 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 seek external professional advice it considers necessary and to arrange external advisers to attend its meetings. The Committee will also periodically report the status and performance of investments to the Board.

CORPORATE GOVERNANCE REPORT (continued)

The main duties of the Investment 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 investment
- 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 the 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 Investment Committee meetings for 2006 is as follows:

Number of Meetings	4	
Members of the Investment Committee	No. of Meetings attended	Attendance rate
LEUNG Kwong Wai	4	100%
LO Wai Ming	2	50%
LAI Woon Ching	4	100%
CHOY Kwok Hung, Patrick	4	100%
Attendance rate		88%

With more than 15 investment cases studied by the corporate development division, the Committee decided to further study the merits of certain investment cases.

Accountability and Audit

Financial Reporting

The Directors of the Company acknowledge their responsibility to present a balanced, clear and understandable assessment in the Consolidated Financial Statements of the annual and interim reports. The Directors have prepared the Consolidated 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.

Internal Controls

The internal controls within the Group are designed to help the Group achieve key initiatives, and represent the Group's efforts in protecting its physical assets, information and technology. The presence of internal controls empowers the Group to implement best business practices in 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 2006, the Audit Committee conducted a review of the Group's system of internal control and was satisfied that the Group had complied with the code provisions of the Code.

The board conducted a review of the Group's internal control system for the year ended 31 December 2006, including financial, operational and compliance control, and risk management functions. The Board assessed the effectiveness of internal control by considering reviews performed by the Audit Committee, executive management and the internal auditor; and the independent auditor's management letters, if any.

The Internal Audit team follows a risk-based approach. Different audit areas are assigned risk ratings and an audit plan is formulated accordingly so that priority and appropriate audit frequency is given to areas with higher risks. The annual work plan is reviewed and endorsed by the Audit Committee. The team independently conducts regular financial and operational reviews on the Group and reports directly to the chairman of the Audit Committee regularly. Summary of major findings and control weaknesses, if any, are reviewed by the Audit Committee at least twice every year. The Internal Audit team monitors the follow-up actions agreed upon in response to its recommendations.

Independent Auditor

The Group's independent auditor is PricewaterhouseCoopers ("PwC"). PwC is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements. Apart from the statutory audit of the annual consolidated financial statements, PwC was also engaged to perform a review on the interim consolidated financial statements of the Group for the six months ended 30 June 2006 as well as advise the Group on tax compliance and related matters.

The fees payable by the Group to the independent auditor in respect of audit and non-audit services provided by them for the year ended 31 December 2006 are US\$125,000 and US\$34,000 respectively.

CORPORATE GOVERNANCE REPORT (continued)

Others

Model Code and Code of Conduct

The Group made specific enquiry with all directors of the Company regarding their compliance with the required standard set out in the Model Code (Appendix 10 of the Listing Rules) in relation to their securities transactions. Confirmation has been sought from all directors that they have complied all required Standards. Regarding the shares held by directors, the details are listed in the Report of the Directors section of this Annual Report. 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 relevant employees who are 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 2006.

Since it was founded in July 1999, the Group has always held a strong belief that its future success relies on its trustworthiness, goodwill and integrity in dealing with customers, suppliers, employees, shareholders, the industry 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 Company 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, its management has actively participated in investor forums and conferences in the region as well as met investors during non-deal roadshows, with the purpose of ensuring understanding of the Group's business model and industry dynamics among investors.

It is the Company's intention to hold analyst meetings and press conferences immediately after the announcements of the Group's interim and annual results. In 2006, the Company made the Group's second annual results announcement and the third interim results announcement since listing. The management interacted directly with investors, analysts and the media, and provided them with insightful information and answers to their queries. On 27 April 2006, the Company held its 2006 Annual General Meeting at Conrad Hotel, Pacific Place, 88 Queensway, Hong Kong at 4:00pm. During the said annual general meeting, the following items were discussed:

- Report of the Directors and Independent Auditor's Report for the year ended 31 December 2005
- Final dividend for the year ended 31 December 2005
- Re-election of directors
- Authorization to fix the directors' remuneration
- Appointment of Independent Auditor
- Authorization to repurchase the Company's shares

- Authorization to grant a general mandate to allot, issue or deal with the Company's new shares
- Extension of the general mandate
- Amendments to the Company's Memorandum and Articles of Association

All resolutions related to the above items were passed unanimously.

For the year under review, the Company conducted 170 meetings and 54 conference calls with investors and analysts. On average, the Company had 4.3 meetings or conference calls with the investment community per week. It also participated in 3 non-deal roadshows during which it talked to investors in Hong Kong, Singapore, Tokyo and London, and 5 investor related functions such as corporate days, conferences or luncheons.

As part of its efforts to promote its image and reputation, the Group leveraged the networks and experience of a public relations firm. During 2006, a total of 27 media interviews were conducted on TV and radio, in newspapers and with some well known magazines.

The views of investors are invaluable to the Company. To help it improve communication with investors, the Company has been collecting ideas from shareholders and feedback from the investment community since listing. The Company also appreciates the opportunity to meet shareholders face-to-face.

The Company's Articles of Association were amended during 2006 to align with certain provisions of the Code and minor housekeeping amendment[s] of the Listing Rules. To the best knowledge of the Company, as at 31 December 2006, 4 institutional investors held more than 31% of the Company's shares, the Board as a whole held roughly 9%, and the remaining approximately 60%, is believed to be in public hands.

The website of the Group (www.solomon-systech.com) is also updated constantly to inform 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 Company's shareholders' rights are at all times highly regarded by the Group. The Group will make sure the Company's shareholders know how to exercise their rights. The Group provides effective channels for the Company's shareholders to communicate their ideas to the Group and 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 are detailed in the Company's Memorandum and Articles of Association, which is accessible for inspection 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 Corporate Communications Manager who will act on the subject matter accordingly.