

**ENVIRONMENTAL, SOCIAL AND
GOVERNANCE REPORT**

2016 環境、社會及管治報告





What Does “ESG” Mean to Solomon Systech?

Solomon Systech (International) Limited (“Solomon Systech”/the “Group”) believes that Environmental, Social and Governance (“ESG”) is an integral part of our business excellence and a means to achieving long-term sustainable growth. It demonstrates our accountability and transparency with our stakeholders which has been woven into the fabric of the Group’s daily operations.

Our customer base comprises some of the world’s most renowned and respected electronics corporations, including leading cellular phone brand owners and display module makers. In this context, Solomon Systech is committed to providing high quality products and customer services through continually improving the product quality, minimizing the environmental impact, and also ensuring sustainable operating practices through managing our supply chain in a socially and environmentally responsible manner. As a technology firm, we strive to foster a continuous learning culture and provide our employees with an open, supportive and healthy workplace. Last but not least, we firmly believe that for a company to be commercially successful over the long term, it is essential for it to create value for both its stakeholders and for society as a whole. It has been our strategies to leverage our expertise and resources to support the communities in which we operate.

About This Report

This ESG report (“Report”) has been prepared with reference to the ESG Reporting Guide (“Reporting Guide”) of the Stock Exchange of Hong Kong Limited. It summarizes the key ESG performance of the Group during the period from 1 January 2016 to 31 December 2016, with focus on our principal office in Hong Kong, the major operating entity of the Group both in terms of asset value and key management.

Our Approach

Our ESG strategies adopt a 4-pillar approach, centering on four key areas that we believe are the fundamental building blocks contributing to a sustainable business model: Environmental Protection, Employees & Workplace Quality, Sustainable Operating Practices and Community Investment.



Under each pillar, we have identified the material ESG aspects to the Group.

Environmental Protection
<ul style="list-style-type: none"> Design to minimize environmental impact Green thinking and green operations
Employees and Workplace Quality
<ul style="list-style-type: none"> Respect labor and human rights Foster continuous learning and development Provide an open, supportive and healthy workplace Motivate and reward our people
Sustainable Operating Practices
<ul style="list-style-type: none"> Supply chain management & product responsibility Internal control and information protection Code of conduct and anti-fraud policy
Community Investment
<ul style="list-style-type: none"> Nourish industry talents & contribute to the community

Who We Are

Solomon Systech (International) Limited and its subsidiaries are fabless semiconductor companies specializing 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, wearables, portable devices and industrial appliances.

Visit us on the Web: www.solomon-systech.com



Environmental Protection

Solomon Systech adopts a “fables” business model. We focus on the design and development, logistics arrangement, as well as quality control and marketing of Integrated Circuit (“IC”) solutions, and we outsource the manufacturing processes. As such, we aim to reduce our environmental footprint mainly through continually producing innovative and eco-friendly products, instilling green thinking and practices in our employees, and utilizing natural resources prudently and rationally. Given our business nature, we have minimal impact on the air and greenhouse gas emissions, discharges into water and land, and waste generation.

Design to minimize environmental impact

Low power consumption design has become one of the most important design requirements for smartphones, tablets and many other consumer and industrial applications. Our IC products and system solutions are the key components to lower the power consumption of these applications. In striving for environmental excellence while also enhancing customer satisfaction, we are committed to continuously producing innovative products and also improving the eco-features of our products by enhancing their energy efficiency.

All of our products are Restriction of Hazardous Substances (RoHS) compliant and halide free. In addition to the six hazardous substances banned by RoHS requirements, we have extended our product testing to ensure restriction of use of more than 30 hazardous substances in compliance with Sony’s SS00259 Management Regulations.

Green thinking and green operations

At Solomon Systech, we have complied with relevant laws and statutory requirements on environmental protection, and have earned ISO 14001 certification for our environmental management systems and procedures.

In compliance with the principles of “Reduce, Reuse and Recycle” to minimize our use of natural resources and to instill “green thinking” and a passion for sustainability among employees, we have introduced a range of measures and organized a variety of activities to engage our employees to help protect the environment:

- Support “Earth Hour 2016” by switching off the lights during lunch every day for one hour. In 2016, the electricity consumption in Hong Kong office was 629,492 units, compared to 637,019 units in 2015.
- Share with employees weekly “Green Tips”, i.e. simple but feasible energy-saving measures in the workplace
- Send friendly reminders to employees for switching off computers and unplugging electronic devices before long weekends to reduce electricity consumption.
- Set up a comprehensive electronic documentation

In 2016, we continued our recycling activities, including the recycling of gold scraps and used products, such as red packets, batteries, energy-saving compact fluorescent light bulbs and fluorescent lamps, mooncake boxes, etc., We also continued to transfer the Chinese New Year gifts donated by our employees to charitable organizations.

Recycled Items	Quantity (pieces)	
	2016	2015
Red Packets	1,869	2,997
Mooncake Boxes	32	30
Rechargeable Batteries	51	28
Light Bulbs, Light Tubes and Spot-lights	135	142

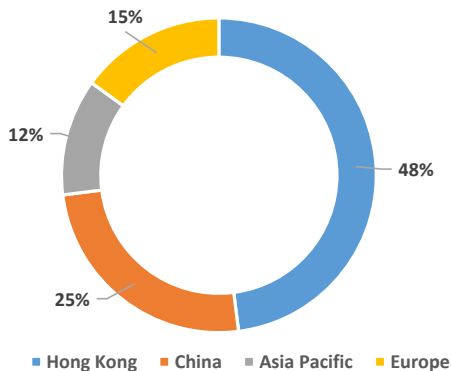




Employees and Workplace Quality

As of 31 December 2016, the Group had a headcount of 382 employees, excluding workers at its manufacturing subsidiary in China. Of the total workforce, around 48% were based in the Hong Kong head office, with the rest located in China, United Kingdom, Taiwan, Japan and Korea. In terms of workforce composition, we have continued to increase the headcount for product development to be in line with our focus on new product innovation.

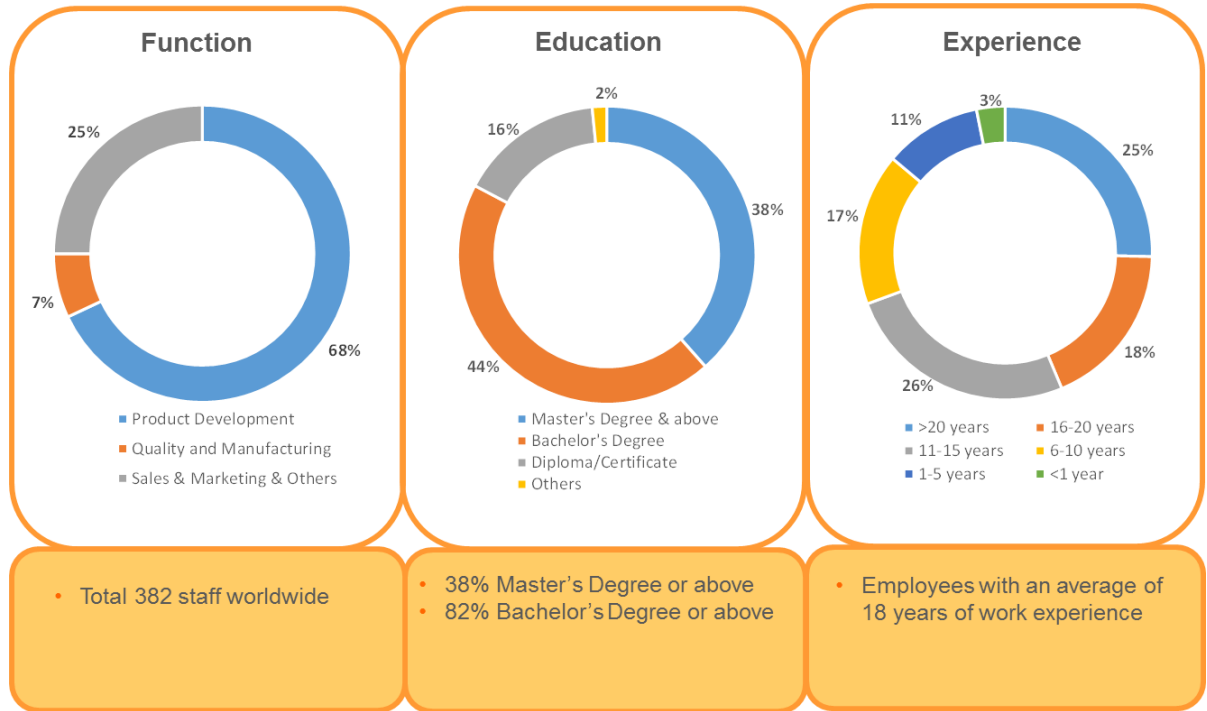
Workforce by Region



Note: Data as at 31 December 2016

About 82% of the Group's employees hold a bachelor's degree or above, and around 38% have obtained a master's degree or higher academic qualifications. The Group's emphasis on Research & Development is also reflected in the composition of our workforce, as 68% are engineers who specialize in product design and development. The entire team has, on average, 18 years of working experience.

We adopt a zero tolerance policy regarding child or forced labor. We ensure that the compensation and benefits for our employees comply with or exceed the minimum legal requirements of the country where employees are employed. For example, we provide full paid sick leave to employees in our Hong Kong office.



Respect labor and human rights

Solomon Systech is always committed to maintaining a work environment that respects and supports human rights for all of our employees around the world. We have in place a set of well-defined Human Resources Policies and Procedures and we comply with the latest legal and statutory requirements on labor and equal opportunities.

In addition, we adopt family-friendly practices by providing special leave for marriage, new born baby, etc., apart from maternity and paternity leave. To allow employees to have more flexibility to meet family needs and personal obligations, the Group also introduced "Flexible Work Hours" policy in December 2016.



Foster continuous training and development

As a technology company, “Innovation” is what put us at the forefront of the industry, and our “Employees” are our key drivers for innovation and thus are pivotal to our development. At Solomon Systech, we foster a “Continuous Learning” culture and innovative spirit. We provide training courses and workshops to employees and strive to ensure that they become continuous learners with enhanced capabilities to create and innovate.

In 2016, the Group dedicated a total of over 3,000 man-hours to training and development (an average of 10.2 training hours per employee), covering industrial and technical training, and others including corporate governance, project management, internal controls, etc. Apart from in-house training, the Group has also encouraged employees to take external job-related courses and sponsors a portion of the tuition.

Provide an open, supportive and healthy Workplace

Solomon Systech promotes a culture of honest, transparent communication, to create an open and collaborative work environment that increases job satisfaction. We conduct monthly “Operations Review” and quarterly videoconferences, “Mass Communication Meetings,” to inform employees about the current status of the business, its strategy and other topics of importance. We also use the intranet as a key platform for sharing information with employees on corporate strategy and activities, events and achievements. In 2016, a direct communication email platform “CEO Mailbox” was launched to encourage anonymous communication between individual employees and the CEO.

We also advocate sharing and interactive communication among employees to foster collective creativity and a long-term commitment to the Company. All departments are encouraged to hold information-sharing sessions and departmental gatherings.

Solomon Systech invests in the health, safety, and wellness of our employees, and complies with relevant legal and statutory requirements on occupational health and safety. We provide a safe working environment and health insurance covering medical, disability, accidental and life benefits to eligible employees. In 2016, no work-related fatalities were recorded.

The Group’s Staff Recreation Club (SRC), led by departmental representatives, organizes a variety of participatory activities for employees to help them strike a healthy work-life balance and also promote team building.

In 2016, apart from corporate events including the anniversary dinner and annual lunch, the SRC arranged sports activities including an indoor football tournament, an industry bowling competition, etc.; leisure activities including an eco-cycling tour, a pool soccer fun party, an outing to Xinhui County in Guangdong, PRC as well as Christmas tea party cum family balloon workshop. We also organized health talks on the topics of “Work and Common Gastrointestinal Diseases”, “Food Labelling Traps” and “Chinese Medicine Meridians and Acupoints Massage”.





Motivate and reward our people

Aiming at motivating, retaining and rewarding employees, in 2016, we continued to grant share options in appreciation of selected employees for their excellence performance and contributions. We offered the “First Order Award”, and continued the “NPI Incentive Program”, a cash reward scheme, to reward development teams for their success in introducing new products to the market that excelled in time-to-market and revenue contribution. The “Patent Granted Award” was in place to encourage and reward technological innovation, while “Long Service Award” was granted to employees of long standing. In 2016, an additional award, the “ES1 MP Award” was launched to encourage efficient design-in and design-win for revenue generation and cost reduction.

In 2016, the Group was awarded the “Happy Company” label for the second year which is a recognition of our continued commitment in fostering a happy workplace culture and raising the happiness-at-work level of the workforce. The award was under the “Happiness-at-Work Promotional Scheme” jointly launched by the Promoting Happiness Index Foundation and the Hong Kong Productivity Council.



Sustainable Operating Practices

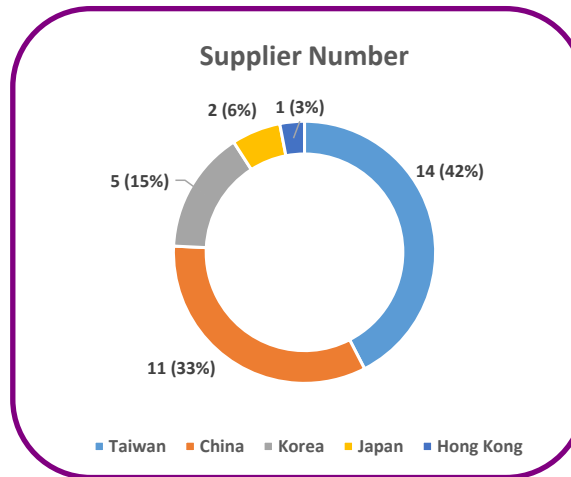
Supply chain management & product responsibility

We strive to manage our supply chain in a socially and environmentally responsible manner to promote sustainability in the marketplace, and create long-term value for the Group and society at large.

The Group engages suppliers to manufacture, assemble and test our designed products. In 2016, we had a total of 33 suppliers and subcontractors, of which 42% were located in Taiwan, with the rest in China, Korea, Japan and Hong Kong.

We work closely with suppliers to convey our requirements, monitor compliance, improve performance and build capability.

Attaching great importance to quality and environmental protection, we have in place a Supplier Quality Management System to ensure the quality of all aspects related to new product development, procurement, production, service provision, etc.



All of our suppliers are expected to comply with relevant local laws and also the international quality and environmental management standards that we ourselves have attained, including ISO9001 Quality Management Certification, ISO 14001 Environmental Management Certification, Restriction of Hazardous Substances Directive (RoHS) compliance, etc.

Our suppliers are required to conduct laboratory analysis of raw materials supplied and sign a Green Warranty letter to ensure the raw materials and the manufacturing processes comply with international environmental standards. We also conduct quality reviews annually with our suppliers who supply over 30% of any specific materials or services.

We assess suppliers' sustainability performance through our business scoreboard. Site audits will be conducted with suppliers based on the rating on the scoreboard, and also when any issues or serious product quality problems occur.

We also embed sustainability into our core business practices by integrating our Code of Conduct and related policies and guidelines into supplier contracts.

With regard to customers, we have in place a well-established working instructions and a two-level system to encourage communication with customers, and to ensure efficient handling of customer enquiries and requests for material returns. The first level is for "Customer Incidents" ("CI") which focus on the investigation and handling of customer enquiries or complaints. We target to complete each CI with investigation report generated within 7 days of the customer enquiries or complaints. The second level is for "Return Material Requests" ("RMR") through which we handle valid CIs that lead to return of materials. In 2016, we attained 70% achievement rate for the first level CI handling and no products were subject to recalls for safety and health reasons.

We also conduct annually customer satisfaction survey ("CSS") to closely monitor our performance in terms of product development, logistics arrangement, services, quality and price. In 2016, the CSS was conducted with 18 customers and distributors in different regions.





Internal control and information protection

Solomon Systech has set up effective risk management and internal control systems with a view to implementing best business practices in today's dynamic and challenging business environments, achieving key initiatives, and also protecting our physical assets, information and technology.

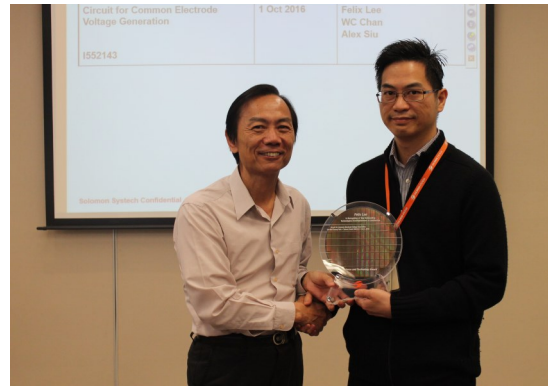
The proper handling and dissemination of inside information is one of the key considerations in assessing the effectiveness of Solomon Systech's risk management and internal control. For more details about the Group's overall risk management and internal control strategy and framework, please refer to the Corporate Governance Report of the Group's 2016 Annual Report: <http://www.solomon-systech.com/en/page/annual-interim-reports/>

With regard to protection of proprietary information, the Group has in place a "Protection and Proprietary Information Policy" which aims to identify, classify and protect information (business, technical or personal) which are confidential or sensitive from inadvertent or unauthorized disclosure, theft, fraud, misappropriation and loss. The policy is posted on the group's internal intranet site for easy access of employees.

Protecting Intellectual Property Rights

Intellectual Property (IP) rights contribute significantly to a company's assets and market value, in particular to a technology firm like Solomon Systech.

To encourage patent development to reduce IP risk and to strengthen the IP portfolio, Solomon Systech has set up the "Intellectual Property Incentive Program" and "Patent Granted Award" to acknowledge patent inventors. The Patent Committee of the Group is responsible for evaluating new patent applications with respect to development status, intellectual property status, market potential, market maturity, and competing technologies, and also working with the patent attorney on patent application. In 2016, the Group was granted three patents and filed applications for nineteen patents covering various display design and application areas.



Consumer Data Protection and Privacy Policies

Solomon Systech is a B2B business targeting display module makers and electronic devices manufacturers instead of the consumer market, our data protection and privacy policies focus on business related information, confidential and proprietary information or trade secrets.

Apart from the "Protection and Proprietary Information Policy" as mentioned above, we also sign non-disclosure agreements with our business partners or potential business partners with a view to protecting non-public business information.

Code of conduct and anti-fraud policy

Integrity forms a key cornerstone in the foundation of the Group's success. We believe that strong governance and ethical conduct are essential in building a sustainable business and gaining the trust of our employees, customers, and stakeholders alike.

Towards that end, we have in place a Code of Conduct and an Anti-Fraud Policy, as well as associated policies and guidelines including Business Principles, Internal Control Policies and Procedures, Human Resources Policies and Procedures, Gift Handling Policies, Finance Policies and Procedures and Protection of Proprietary Information aimed at providing a framework for the operation of the Group in line with our shareholders' best interest and legal requirements. All of these policies and guidelines are available on the company intranet for easy access of all employees.

In addition, an "Internal Control & Information Protection Training" session which covers the Code of Conduct, Anti-Fraud Policy, Protection of Proprietary Information and Gift Handling Policy was conducted twice at the Hong Kong office and once at the Shenzhen office respectively for the new employees. No suspected enquiries or cases involving fraud were reported during 2016.





contributing to development of new talent for the industry and a better society.

In addition to offering internships and job placement opportunities, we also offer scholarships to top students of accredited universities and organize company visits for local university students, enabling them to have a better knowledge of IC design work. In 2016, the Group offered a total of one scholarship and three one-year internships.

We have always encouraged our employees to participate in social and community events and to volunteer for good causes. In 2016, the Group sponsored our employees to participate in WWF's Run for Change – A Starry Night Run in Hong Kong.

In recognition of our continuous efforts in fulfilling our responsibilities as a good corporate citizen, in 2016, the Group has been named as a “Caring Company” for the 12th consecutive year by the Hong Kong Council of Social Service. We have also successfully obtained the “Corporate Citizenship Logo” (Enterprise Category) under the 7th Hong Kong Corporate Citizen Program co-organized by the Hong Kong Productivity Council and the Committee on the Promotion of Civic Education. The program recognizes corporations with good corporate social responsibility (CSR) performance in four aspects - employees’ well-being, sustainability, business ethics and contribution to society.

Community Investment

Nourish industry talents & contribute to the community

We care about our earth as well as the overall sustainable development of the communities where we work. As a key industry player, we focus on leveraging our expertise and resources on talent education and industrial development to sustainably contribute to the economic growth of the communities.

The Group’s senior management has been invited to take up advisory roles in the government and statutory bodies, to provide counsel on matters relating to the development of the local technology industry, and also sit on the executive boards of major local and international industry associations, and the advisory boards of local universities and educational institutions, to share their professional experiences and insights, thereby





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