

Corporate Governance

The Group places much emphasis on corporate governance, which has become a general concern in recent years. Over the years, the Group has been actively implementing highly effective corporate governance measures and has established a set of proper decision making procedures and a sophisticated internal management and process control system. In accordance with the Company's business development strategies, all Board members work closely with the management to make contribution for the Company's interest as a whole with the ultimate objectives to enhance our competitiveness and facilitate operating efficiencies, thereby creating greater value for our shareholders.

Board of Directors

The Board is mainly responsible for formulating the Company's long-term development strategies and operating directives, and supervising the management to ensure thorough implementation of the Board's resolutions and effective performance of their duties. Chairman of the Board shall ensure effective operation of the Board and put forward any important matters as and when appropriate for discussion in Board meetings. Under the leadership of the Chairman, the Board shall be responsible for the Company's overall management and making critical business decisions in the best interest of the Company. At present, the Board has twelve members, three of them are independent non-executive directors (please refer to pages 40 to 42 of this annual report for directors' profile).

Members of the Board comprise experts from various professions, who have served in relevant government departments in Mainland China, enterprises, financial institutions, etc. They all possess many years of working experience in the fields of corporate management, economic research and corporate financial activities as well as extensive experience in enterprise management. Meanwhile, our independent directors possess expertise in financial management, and experience and professional ability in running businesses. Several directors from Shanghai had been officials in the Shanghai Municipal Government responsible for economic planning, and senior executives in financial institutions. They are well informed and have in-depth knowledge of investing in the PRC, particularly in Shanghai and the Yangtze River Delta, and are therefore able to keep abreast of the latest economic development and business environment and capitalize on every investment opportunity. Three Board meetings were held during the year with agenda matters including annual and interim results, acquisition of interest in Shanghai Industrial United Holdings Co., Ltd., privatisation of SIIC Medical Science and Technology (Group) Limited, and disposal of interest in elevated road projects in Shanghai, etc.

At present, directors' remuneration and benefit packages are determined and approved by the Executive Committee based on the functions and performance of the respective directors and by reference to the market rate. The grant of the Company's share options to executive directors shall be approved by independent non-executive directors; the grant of share options to independent non-executive directors (or their associates), to the extent that such grant exceeds the limit required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), shall be subject to shareholders' approval. As required under the Listing Rules and subject to the internal guidelines of the Company, any proposed dealings in shares of the Company by directors shall be first notified to the Chairman of the Board or a director designated by the Company and such dealings shall only be carried out subject to written confirmation by the Chairman or the designated director as aforesaid. No director (and his associates) shall deal in any shares of the Company one month before the announcement of the Company's results or once he becomes aware of any price sensitive information of the Company. Such restrictions concerning share dealings shall be extended to cover all senior management staff and certain staff members. Details of directors' and shareholders' interests and connected transactions are contained in pages 50 to 53 of this annual report.

The Company's Articles of Association require that, at least one-third (or the nearest one-third) of the Board of Directors retires each year on the basis of the longest length of service and may offer themselves for re-election at the Annual General Meeting. Any newly appointed director shall retire at the close of the next Annual General Meeting eligible for re-election. Directors who retire by rotation eligible for re-election at the forthcoming Annual General Meeting include Mr. Ding Zhong De, Mr. Lu Shen, Mr. Qian Shi Zheng, Mr. Ge Wen Yao, Mr. Woo Chia-Wei and Mr. Leung Pak To, Francis. Shareholders may lodge with the Company notice to propose a person for election as a director within the time as stipulated in the Company's Articles of Association before the Annual General Meeting. As presently provided, such notification period shall be at least seven days before the Annual General Meeting. As required under the newly revised provisions of the Listing Rules that became effective on 31 March 2004, all listed companies shall make an amendment to their Articles of Association at the forthcoming Annual General Meeting. After the amendment, the notification period for shareholders to lodge with the previously mentioned notice (together with a written

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confirmation from the director who consents to be elected) shall commence no earlier than the date after the despatch of the notice of Annual General Meeting for such election and ends no later than seven days before the date of the Annual General Meeting. A resolution to the amendment to the Articles of Association is contained in item 8 on the Notice of Annual General Meeting in the circular to shareholders despatched together with this annual report.

Executive Committee

The Executive Committee is appointed and authorised by the Board to take charge of major decision making in relation to day-to-day business of the Company including business investment, operation of assets, financial management, human resources, disclosure of information, etc. The Committee shall report to the Board and ensure notification to the Board of any important matters. Existing members of the Executive Committee are Mr. Cai Lai Xing, Mr. Lu Ming Fang, Mr. Qian Shi Zheng and Mr. Lu Yu Ping. The Committee is responsible for overall business planning, management and supervision. It is also responsible for implementing the policies approved by the Board and reviewing major business activities and project investment. The responsibility of day-to-day management is delegated to senior management, which reports directly to Executive Committee/relevant executive directors (please refer to pages 42 to 46 of this annual report for senior management profile). Committee meeting will be held from time to time. A total of 14 meetings were held during the year (including by way of written resolutions).

Audit Committee

The Audit Committee plays a vital role in corporate governance. The Committee is responsible for reviewing the accounting policies and statement of accounting practice adopted by the Group. It also discusses matters related to financial reporting as well as internal control and audit, and report to the Board with any recommendations in respect of the above matters and operating risks faced by the Group, such that the Board may make the right decision in resolving the relevant matters. The Committee will preview the Group's annual and interim results every year and recommend the Board to approve the financial statements. The Committee meets regularly with the auditors and management/senior management staff to make relevant verification and enquiry. It may also seek external independent professional advice as and when the actual situation requires. Audit Committee now has three members, all being independent non-executive directors who possess extensive knowledge and experience in financial management and business administration. The Committee met three times during the year and one of such meetings was held in relation to internal control matters. Company Secretary takes up the post of Secretary for Audit Committee.

Investment Appraisal Committee

The Investment Appraisal Committee comprises representatives from different functional departments of the Company which include professionals in investment management, financial and legal affairs from Shanghai and Hong Kong. The Committee is established to conduct appraisal for the Company's investment projects based on the Company's overall business investment strategies from different perspectives through the various functional departments. By conducting comprehensive analysis and discussion on key elements of projects such as industry background, organizational structure, business development plan, return on investment as well as financial risk and legal issues, etc., independent professional advice will be formed for submission and report to the CEO or Deputy CEOs for their reference in making decision. Such appraisal will also be submitted to the management meeting for approval subject to the guidelines on corporate investment decision-making process. During the year, the Committee met from time to time as and when the actual business situation required.

Internal Audit Department

The Internal Audit Department is mainly responsible for monitoring the internal control system of the Group (including all its major member companies) to ensure prudent and proper operation. Its scope of audit covers financial control, business operation, compliance and risk management, etc. The Department also conducts independent review, assessment and follow-up procedures, thereby ensuring clear distinction between authority and responsibilities within the management structure and that

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the various member units may accomplish business targets and/or financial operation performance benchmark in accordance with the stipulated policies and guidelines. The Internal Audit Department is independent of the other functional departments and directly reports to the CEO/Deputy CEOs and the Audit Committee and submits independent reports on a regular basis. The representative(s) of the Internal Audit Department will attend every Audit Committee meeting and answer any questions and enquiries raised by members of Audit Committee.

Investor Relations

The Management highly values investor relations and good communications with investors. The Group informs investors from time to time its latest business development through press conferences or the Company's website. Analysts' conferences and telephone conference calls with overseas institutional investors arranged regularly and after the announcement of annual and interim results, to provide better understanding the business operation and financial condition of the Group so as to achieve higher level of corporate transparency. Detailed business information and financial data are provided in the annual report and interim report distributed to our shareholders. Whenever the Company makes announcement of important news or price sensitive information, relevant internal guidelines on disclosure of information are formulated in advance to ensure the disclosure of such information is made in a fair, timely and accurate manner. The Board assumes ultimate responsibility for the accuracy and completeness of such information.

The Group also encourages its shareholders to communicate directly with the management and express their valuable opinions as to the business operation and financial information of the Group at each year's annual general meeting. For any queries about attending the annual general meeting or voting procedures, please contact our Company Secretarial Department at Tel.: (852) 2821 3910, Fax: (852) 2866 3330, E-mail: leunglc@sihl.com.hk. For share transfer and registration matters, please contact our share registrar and transfer office at Tel.: (852) 2980 1766, Fax: (852) 2861 1465. In addition, in line with our development needs, the Company has redesigned its website during the year, providing investors with more user-friendly access and informative data on various aspects of the Group's operations. Please drop by this new website at www.sihl.com.hk.

The Company has basically achieved the globalisation of trading of its shares by establishing a global round-the-clock stock-trading platform for investors. The American Depositary Receipts (ADR) program (Level One) is currently in place for investors to conduct over-the-counter transactions in the United States. Each American Depositary Receipt represents 10 shares in the Company. The Bank of New York is the depository bank for the American Depositary Receipts. The Company's shares are quoted on the London Stock Exchange through the London Automated Quotation System. Hong Kong investors may obtain quotation information of the Company's shares in the System on every trading day through the public media.

Condensed Timetable

2003 Results Announcement	16 April 2004
Closure of Register of Members	25 May 2004 to 28 May 2004, both dates inclusive
Annual General Meeting	3:00pm on 28 May 2004
Payment of Final Dividend	8 June 2004

Code of Best Practice

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Articles of Association.