

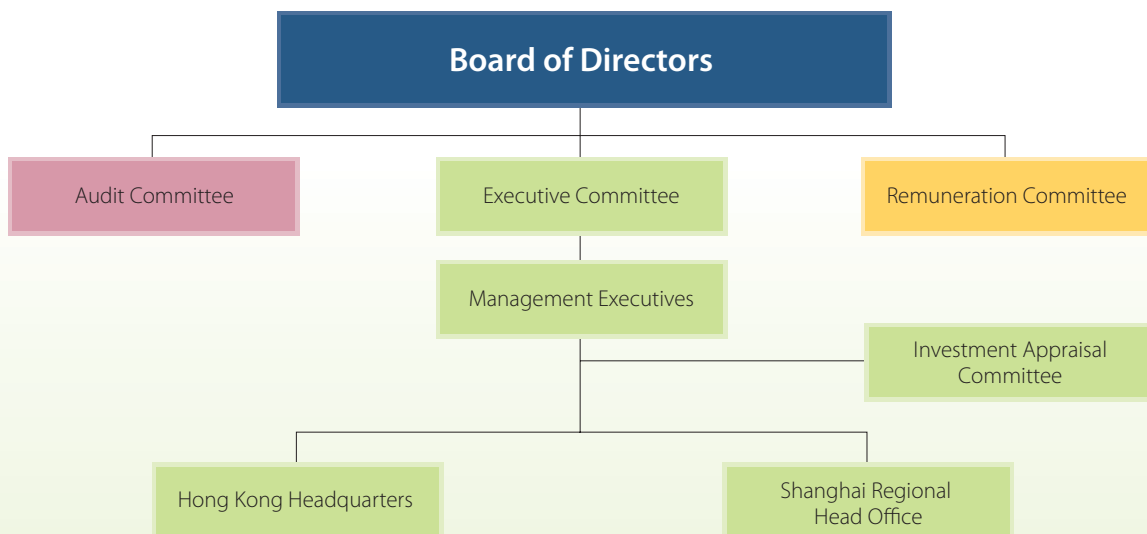
Corporate Governance Report

The Company has made considerable efforts to maintain high standard of corporate governance. Throughout these years the Company has continuously devoted to improve its corporate governance system. Moreover, through the establishment of internal control mechanisms, the Company has enhanced transparency and accountability for the operation of its businesses, and has assured that the operating and financial risks as well as the compliance of its business operation are effectively monitored, and Shareholders' interests are thus protected.

During the year, in view of the changes in rules and regulations, the Company had provided professional training to the financial officers of its member companies on matters concerning the implementation of new accounting regulations in Mainland China, principles and requirements of internal control and financial systems, as well as financial risk management. In addition to the internal audit having conducted on all directly owned entities held by the Company, the Company has reviewed the effectiveness of the internal system of the Company and its subsidiaries in accordance with the requirements of the Code of Corporate Governance. The scope of such review covered financial, operational and compliance controls and risk management functions. Furthermore, during the year, the Remuneration Committee had conducted an overall review on the policies and remuneration level for the Directors of the Company as a whole. Adjustments were made to the structure of remuneration package according to the market trend, and basis of determining the discretionary bonus and the cap amount of Directors' remuneration was established.

Corporate Governance Structure

The governance structure of the Company is designed to take into account the multi-discipline and cross-territory attributes of its businesses, with emphasis on highly efficient management. Set out below is the governance structure of the Company:



Corporate Governance Report

Compliance of Code of Corporate Governance

Throughout the year ended 31st December 2006, the Company has applied the principles and complied with all code provisions of the Code on Corporate Governance Practices as set out in the Appendix 14 to the Listing Rules.

I. Board of Directors

The Board of Directors represents the highest level of authority in the governance structure of the Company. They are mainly responsible for formulating the Company's long term business development strategies and operational direction, monitoring the Group's operations and financial performance, as well as leading and supervising the management to ensure thorough implementation of the Board's resolutions and effective performance of their duties.

Composition of the Board

The Board has eleven members, of whom eight are Executive Directors, namely Mr. Cai Lai Xing, Mr. Cai Yu Tian, Mr. Qu Ding, Mr. Lu Ming Fang, Mr. Ding Zhong De, Mr. Qian Shi Zheng, Mr. Yao Fang and Mr. Tang Jun, and three Independent Non-Executive Directors, namely Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis. Mr. Cai Lai Xing and Mr. Cai Yu Tian are the Chairman and the Chief Executive Officer of the Company respectively. The members of the Board comprise experts from various professions who have served in relevant government authorities, enterprises or financial institutions in Mainland China or Hong Kong. They have extensive experience in corporate and financial administration, economic research and asset management. During the year, there was no change in the composition of the Board.

No members of the Board are related among themselves in terms of financial, business and family. Brief biographical details of the Directors and senior management are set out on pages 42 to 51 of this annual report and published in the Company's website www.sihl.com.hk. In all corporate communications, the Company had disclosed the composition of the Board according to the categories and responsibilities of the Directors.

Corporate Governance Report

Nomination of Directors

The nomination of the Directors is principally made by the controlling Shareholder of the Company recommending candidates to the Company, and considered by the Board on the basis of the candidates' working experience, profession and academic background, and the time and contribution they are able to devote to the Company. During the year, the Company did not receive any nomination of Directors.

Re-election of Directors

In accordance with the Company's Articles of Association and provisions set out in the Code on Corporate Governance Practices, Mr. Cai Yu Tian was appointed as an Executive Director of the Company in December 2005, who was re-elected by the Shareholders at the first general meeting after his appointment. Each Director (including those Directors who are appointed with a specific term) is subject to be re-elected by rotation at least once every three years.

The Directors retired and re-elected in accordance with the Articles of Association at the Annual General Meeting in 2006 were Mr. Cai Yu Tian, Mr. Ding Zhong De, Mr. Qian Shi Zheng, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis. At the 2007 Annual General Meeting of the Company to be held on 30th May 2007, four Directors are to be retired by rotation and eligible for re-election, namely Mr. Qu Ding, Mr. Lu Ming Fang, Mr. Yao Fang and Mr. Tang Jun. The brief biographical details of the Directors to be re-elected at the 2007 Annual General Meeting are set out in the circular to Shareholders regarding proposed general mandates to repurchase shares and to issue shares and re-election of retiring Directors, which was despatched to each Shareholder together with this annual report, so as to enable the Shareholders to make an informed decision on their election.

Term of Directors

According to the Directors' service agreement entered into between the Company and Mr. Cai Lai Xing, Mr. Cai Yu Tian, Mr. Qu Ding, Mr. Ding Zhong De and Mr. Qian Shi Zheng (all of whom are Executive Directors) respectively, any party to the agreement may terminate the agreement by giving to the other party a six months' prior written notice. In addition, the Company also entered into letters of appointment with each of the remaining three Executive Directors and three Independent Non-Executive Directors, specifying an appointment term of three years, subject to renewal upon expiry. The retiring Directors subject to rotation according to the Articles of Association are eligible for re-election during the term.

Corporate Governance Report

As at the date of this report, the years of services and term for each member of the Board are as follows:

Name of Directors	Positions in the Board	Years of service	Term of appointment
<i>Executive Directors</i>			
Cai Lai Xing	Chairman	11 Years	Any party to the agreement may terminate the agreement by giving to the other party a six months' prior written notice.
Cai Yu Tian	Vice Chairman and Chief Executive Officer	1.5 Years	Any party to the agreement may terminate the agreement by giving to the other party a six months' prior written notice.
Qu Ding	Vice Chairman and Executive Deputy CEO	2.5 Years	Any party to the agreement may terminate the agreement by giving to the other party a six months' prior written notice.
Lu Ming Fang	–	5 Years	Until 31st December 2008, subject to renewal upon expiry.
Ding Zhong De	–	3 Years	Any party to the agreement may terminate the agreement by giving to the other party a six months' prior written notice.
Qian Shi Zheng	Deputy CEO	5 Years	Any party to the agreement may terminate the agreement by giving to the other party a six months' prior written notice.
Yao Fang	–	4 Years	Until 31st December 2008, subject to renewal upon expiry.
Tang Jun	–	3 Years	Until 31st December 2008, subject to renewal upon expiry.
<i>Independent Non-Executive Directors</i>			
Lo Ka Shui	–	11 Years	Until 31st December 2007, subject to renewal upon expiry.
Woo Chia-Wei	–	11 Years	Until 31st December 2007, subject to renewal upon expiry.
Leung Pak To, Francis	–	11 Years	Until 31st December 2007, subject to renewal upon expiry.

Corporate Governance Report

Responsibilities of Directors

Mr. Cai Lai Xing and Mr. Cai Yu Tian are the Chairman and Chief Executive Officer of the Company respectively. The Chairman is mainly responsible for the management of the Board, providing leadership, ensuring effective performance of the Board and that Directors receive adequate information on the agenda, which must be complete and reliable, in a timely manner before the meeting. The Chief Executive Officer is mainly responsible for the operation and management of the Group's businesses, leading the management executives and the members of the management to perform their duties in accordance with the established business strategies and operation directions of the Board. The Company has formulated an Interpretation on the Responsibilities between the Chairman and the Chief Executive Officer for division of responsibilities between the two roles.

The functions of the Company's Independent Non-Executive Directors include participating in board meetings to bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct; taking the lead where potential conflicts of interests arise; scrutinizing the performance of the Company in achieving agreed corporate goals and objectives, and monitoring the reporting of performance. All Independent Non-Executive Directors are also the members of the Company's Audit Committee and Remuneration Committee. There is no material commercial transaction entered into between them and the Company, its controlling Shareholder and their respective subsidiaries, and they have no material interest in the principal operating activities. There was no evidence in any aspect which demonstrated that the guidelines relating to the assessment of the independence of Directors as set out in Rule 3.13 of the Listing Rules were not complied with. Each Independent Non-Executive Director has confirmed their independence according to Rule 3.13 of the Listing Rules for the year.

The Company will provide a Memorandum of Responsibilities to every newly appointed Director. Briefing sessions and training will be delivered whenever necessary during his appointment to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of the policies of the Company and his statutory responsibilities under the laws and regulations promulgated from time to time.

Maintaining close association with each of the Directors, the Company Secretary is responsible for ensuring that board procedures and all applicable rules and regulations are followed, and offers advice and services to the Board members where necessary. Furthermore, the Company has established the Procedures for Directors to Seek Professional Advice in order to facilitate the Directors in performing their duties. The Directors may seek independent professional advice according to such agreed procedures at the expense of the Company.

Moreover, the Company also arranged liabilities insurance for the directors and officers of the Company and its subsidiaries, providing certain protection to the liabilities risks they may have involved in the discharge of their duties as well as to the possible legal claims made against the respective companies as a result.

Corporate Governance Report

Meeting Procedures

The time for convening the regular meetings of the Board (in this section it also refers to the Board's Committees) each year was proposed to each Director at the beginning of the year, so that arrangements could be made by each Director for attending the meetings. During the year, notices of regular board meetings and the relevant materials for board meetings were given 14 days and 3 days respectively before the date of the meeting in accordance with the Code of Corporate Governance Practices. In order to ensure that the Directors are given sufficient time to review the documents, the Company also seeks to send the materials not less than 72 hours (excluding Sundays) before the meeting. During the year, only one of the reports for the second Audit Committee in 2006 failed to be sent 72 hours before the meeting, but was still given within 3 days as required in the Code. The Company Secretary will contact the Directors for any matters that are required to be included in the agenda before sending the agenda for regular meetings of the Board. The Directors are given the contact information of the management or relevant officers, so that the Directors may have direct access to the relevant officers where necessary for better discharge of their duties as members of the Board.

Minutes of board meetings are kept by the Company Secretary and have recorded in sufficient detail the matters considered at the meeting, including any concerns raised by Directors or dissenting views expressed. Board meeting documents and related materials are open for inspection at any time by any Director. Draft and full versions of minutes of meetings are to be sent to all Directors by the Company Secretary for their comment and records respectively, in both cases within a reasonable time after the meeting is held. If a substantial Shareholder or a Director has a material conflict of interest in a matter to be considered by the Board, the matter will be dealt with at a regular board meeting to be attended by all Directors. The related Director must abstain from voting and that he will not be counted in the quorum present at the meeting. According to the provisions of the Articles of Association, a Director holding 5% or more interests is regarded as having material interest.

In 2006, five regular board meetings were held by the Company, of which one was conducted in the form of written resolutions. The average percentage of attendance was 98%. During the year, attendance of the board meetings was as follows:

Name of Director	Attendance/No. of meetings	Percentage of Attendance
<i>Executive Directors</i>		
Cai Lai Xing	5/5	100%
Cai Yu Tian	5/5	100%
Qu Ding	5/5	100%
Lu Ming Fang	5/5	100%
Ding Zhong De	4/5	80%
Qian Shi Zheng	5/5	100%
Yao Fang	5/5	100%
Tang Jun	5/5	100%

Corporate Governance Report

Name of Director	Attendance/No. of meetings	Percentage of Attendance
<i>Independent Non-Executive Directors</i>		
Lo Ka Shui	5/5	100%
Woo Chia-Wei	5/5	100%
Leung Pak To, Francis	5/5	100%

Code for Securities Transactions By Directors

Pursuant to the relevant provisions in the Model Code in Appendix 10 and the Code of Corporate Governance Practices in Appendix 14 to the Listing Rules, the Company has established its own Code for Securities Transactions by Directors or Relevant Employees. Directors and employees with the position of senior managers or above must comply with such code in dealing with the securities of the Company. The code of the Company was set on terms no less exacting than the required standards set out in the Model Code. Having made enquiries with all the Directors, it was confirmed that the requirements of the Model Code and the Company's code were fully complied with during the year. The interests of Directors in the securities of the Company and its subsidiaries were set out on pages 54 to 55 of this annual report.

Delegation by the Board

The Company has established an Executive Committee, an Audit Committee and a Remuneration Committee under the Board. The Executive Committee have given clear directions on the authority of the management executives in particular on investment appraisal, capital commitment and financial assistance. The heads of various functional departments handle the daily operation and report to the Executive Committee regularly. The Board will review the delegation of authority from time to time where appropriate to the interests of the Group as a whole.

Executive Committee

The Executive Committee is a decision-making administrative body under the Board that carries out its responsibilities on its behalf. Existing members of the Executive Committee are Mr. Cai Lai Xing, Mr. Cai Yu Tian, Mr. Qu Ding, Mr. Lu Ming Fang, Mr. Qian Shi Zheng and Mr. Yao Fang. Mr. Cai Lai Xing is the Chairman of the committee. The committee is delegated with authority by the Board, with a primary purpose of taking charge in major decision making in relation to the day-to-day business of the Company, ensuring the proper execution of the resolutions approved by the Board and the Shareholders' Meeting, and reviewing major business activities and investments. Day-to-day operation is delegated to the Management Executives and the functional departments. Members of the Management Executives are Mr. Cai Yu Tian, Mr. Qu Ding, Mr. Qian Shi Zheng, Mr. Zhou Jie, Ms. Wang Xiao Dong, Shanel and Mr. Zhou Jun. Functional departments at the Hong Kong headquarters include Administration and Human Resources, Company Secretarial, Corporate Communications, Finance, Information Technology, Internal Audit, Investment Operations as well as Legal. Functional departments at the Shanghai Regional Head Office include Administration and Human Resources, Audit, Enterprise Management, Finance as well as Investment Planning.

Corporate Governance Report

The Company has established an Investment Appraisal Committee, which is mainly comprised of the functional departments at the Hong Kong headquarter. The members are currently comprised of the Head of Investments, the Chief Legal and Compliance Officer, the Chief Financial Officer, the Company Secretary and the Head of the Investment Operations Department. The committee is established to appraise the Company's investment projects from different perspectives with professional competency and views given by various functional departments based on the Company's overall business investment strategies. After conducting comprehensive analysis and discussion of key project elements, such as industry background, organizational structure, business development plans, return on investment, financial risk and legal issues, the committee forms its independent professional advice and submits recommendations and reports to the Management Executives. Such appraisal will then be submitted to the Executive Committee for approval according to the procedures regarding corporate investment decision-making process. During the year, the Investment Appraisal Committee conducted appraisals on eight projects.

Audit Committee

The Audit Committee is a standing committee under the Board and plays a vital role in corporate governance. The Audit Committee comprises three Independent Non-Executive Directors, namely Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis. Dr. Lo Ka Shui is the Chairman of the committee, while the Company Secretary acts as Secretary for the committee. The Audit Committee is responsible for reviewing accounting policies and practices adopted by the Group. It also discusses matters related to financial reporting, as well as internal control and risk management, and reports to the Board with recommendations in respect of the above matters. The work of the Audit Committee during the year is set out below. The terms of reference for the Company's Audit Committee are published in the Company's website www.sihl.com.hk.

Remuneration Committee

To further enhance corporate governance standards, the Company established the Remuneration Committee under the Board in August 2004. The committee comprises three Independent Non-Executive Directors – Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis and two representatives from the management – Mr. Qu Ding and Mr. Hu Zi Li. Mr. Qu is the Vice Chairman and Deputy Executive CEO of the Company. Mr. Hu is the officer in charge of the Company's Human Resources Department. Dr. Lo Ka Shui is the Chairman of the committee, while the Company Secretary acts as the Committee Secretary. The committee is responsible for reviewing the remuneration policy and structure of the Company as a whole, and makes recommendations to the Board on the establishment of a formal and transparent procedure for setting remuneration policy and structure in regard to the Directors and senior management. The work of the Remuneration Committee during the year is set out below. The terms of reference for the Company's Remuneration Committee are published in the Company's website www.sihl.com.hk.

Corporate Governance Report

II. Remuneration of Directors and senior management

Work performed by the Remuneration Committee

During 2006, the Remuneration Committee held three meetings, one of which was in the form of written resolutions. The percentage of attendance was 100%. Matters considered include the proposal on distribution of bonuses to the Executive Directors for 2005 and the determination on adjustment in the basic salaries of Directors for 2006, the proposal on review of remuneration and distribution of bonuses to senior management for 2005, the grant of the third batch of share options, review and recommendation on the remuneration level for Directors, as well as the payment of remuneration to senior management for the first half of 2006.

During the year, attendance for the meetings of the Remuneration Committee was as follows:

Members of the Remuneration Committee	Attendance/No. of meetings	Percentage of Attendance
Lo Ka Shui (<i>Chairman of the Committee</i>)	3/3	100%
Woo Chia-Wei	3/3	100%
Leung Pak To, Francis	3/3	100%
Qu Ding	3/3	100%
Hu Zi Li	3/3	100%

Directors' Remuneration

The remuneration of the Directors was determined with reference to the operating results of the Company, market environment and Directors' responsibilities. Apart from the basic salaries, the Directors are entitled to discretionary bonuses, the availability of which is subject to the operating results of the Group, industry remuneration level and performance of the respective Directors. During the year, based on the market trend, the Remuneration Committee had made adjustments on the structure of remuneration package of the Directors, cancelling housing allowances and formulating a policy for setting limits over the total amount of Directors' annual remuneration.

Corporate Governance Report

For the year ended 31st December 2006, the remuneration for each of the Directors was as follows:

Name of Director	Director's fee and committee remuneration HK\$	Salaries HK\$	Bonuses HK\$	Equity-settled	Retirement	Total HK\$
				share-based payment expense HK\$	benefits scheme contributions HK\$	
<i>Executive Directors</i>						
Cai Lai Xing	–	3,102,820	2,000,000	358,782	265,956	5,727,558
Cai Yu Tian	–	2,250,990	1,900,000	1,660,618	192,942	6,004,550
Qu Ding	50,000	2,250,990	1,800,000	251,148	192,942	4,545,080
Lu Ming Fang	200,000	–	–	215,270	–	415,270
Ding Zhong De	–	1,831,200	800,000	1,277,399	156,960	4,065,559
Qian Shi Zheng	–	1,587,600	800,000	134,543	133,835	2,655,978
Yao Fang	200,000	–	–	–	–	200,000
Tang Jun	200,000	–	–	134,543	–	334,543
<i>Independent Non-Executive Directors</i>						
Lo Ka Shui	304,095	–	–	–	–	304,095
Woo Chia-Wei	292,095	–	–	–	–	292,095
Leung Pak To, Francis	292,095	–	–	–	–	292,095
	1,538,285	11,023,600	7,300,000	4,032,303	942,635	24,836,823

III. Accountability and Audit

Preparation of Financial Statements

The financial statements and interim report of the Company for 2006 were prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and disclosed pursuant to the provisions required by the Listing Rules and Companies Ordinance. The Board is responsible for preparing and reviewing the Company's accounts to ensure that they give a true and fair view on the financial position, profits and cash flows of the Company, and the Board's responsibility to present a balanced, clear and understandable assessment in all Shareholders' communications extend to the results and conditions of the Group, price-sensitive information and other information required to be disclosed under statutory requirements. During the year, the management had provided the Board with sufficient and adequate information to review the Company's accounts, so as to enable the Board to make an informed assessment of the financial and other information put before it for approval. The Company has consistently applied applicable accounting policies, and had made prudent and reasonable judgments and estimates, and prepared its accounts on a going concern basis. The external auditor had stated their reporting responsibilities in the independent auditor's report on the relevant financial statements, which is set out in pages 61 to 62 of this annual report.

Corporate Governance Report

Work of the Audit Committee

During 2006, the Audit Committee held four meetings, one of which was in the form of written resolutions. The percentage of attendance was 100%. Matters considered at the meetings included review of the Group's 2005 annual results, 2006 interim results, the fees for engaging the external auditor to provide the audit for 2005, non-audit projects and non-audit fees for investment projects, the Audit Proposal regarding the audit for 2006, and review of the Company's financial control, internal control, risk management system, and the internal audit reports.

During the year, attendance for the meetings of the Audit Committee was as follows:

Members of Audit Committee	Attendance/No. of meetings	Percentage of Attendance
Lo Ka Shui (<i>Chairman of the committee</i>)	4/4	100%
Woo Chia-Wei	4/4	100%
Leung Pak To, Francis	4/4	100%

In considering the re-appointment of external auditor, the Audit Committee had taken into consideration its relationship with the Company and their independence in the provision of non-audit services. Each year the external auditor provides to the Audit Committee the relevant information on the internal policies and processes adopted by them for maintaining independence, including rotation of audit partners and staff regularly. Based on the results of the review and after taking into account the opinion of the management, the Audit Committee recommended the Board to re-appoint Deloitte Touche Tohmatsu as the external auditor of the Company for 2007, subject to approvals by the Shareholders at the Annual General Meeting to be held on 30th May 2007. There is no former partner of the existing firm auditing the accounts of the Company acting as a member of the Company's Audit Committee within one year commencing on the date of his ceasing to be a partner of the firm. The audit fee of the external auditor for the year 2006 was HK\$8,280,000. The non-audit services provided to the Group by the Company's external auditor (including their affiliates) and the relevant fees were as follows:

Non-audit Services	Fees
	<i>HK\$</i>
Financial due diligence for acquisitions of projects	5,232,430
Taxation advisory fee	240,450
Others	58,030
	<hr/> 5,530,910 <hr/>

Corporate Governance Report

Internal Control

The Board is responsible to ensure that the internal control system of the Group is sound, proper and effective, and also endeavours to implement sound risk management and internal control systems, for the purpose of providing early warning on risks exposed in business operations and financial management, and monitoring of the rationale behind decisions to be made in operations decisions and resources allocation. This will allow consistent and effective implementation of the systems, clear delegation of authority and responsibilities, and achievement of pre-determined objectives. The Group has formulated internal management systems which include Investment Project Appraisal Policy, Project Manager Management Manual, Financial Management System, Budget System, Connected Transactions Reporting System, Guidebook on Internal Audit System, Internal Control System for pharmaceutical companies and Information Flow Guidelines.

The Company has established an Internal Audit Department which is mainly responsible for monitoring the internal control system of the Group (including all its major subsidiaries) to ensure prudent and proper operation of the respective companies. The audit covers financial, operational and compliance controls and risk management functions. The department conducts independent reviews, assessment and follow-up procedures, and reports to the Audit Committee and the Board regularly on a quarterly basis. The internal audit system is currently conducted in a cycle of three years. Internal audits will be conducted at every major entity under the Group for risk exposure purpose according to the significance of the individual projects. All these entities are assigned with designated officers to give feedback on audits made by the Internal Audit Department.

A review of the compliance control system of the Company was conducted during the year. The Company Secretarial Department was responsible for the relevant work and the first report was submitted to the Audit Committee. During the year, the Internal Audit Department also conducted a review on the internal control system of the Company and its subsidiaries. The review covered all material controls, including financial, operational and compliance controls and risk management. The results of the review revealed that the internal control system of the Company as a whole was reasonable and proper and there were no material issues arisen from non-compliance of rules or inadequacy on internal controls. Such results had been submitted to the Audit Committee for its review and was also confirmed and accepted by the Board.

IV. Communications with the Shareholders

Information for Shareholders and Investors

As at 31st December 2006, Shanghai Industrial Investment (Holdings) Co. Ltd., the controlling Shareholder of the Company, indirectly held 968,504,000 shares of the Company. The percentage of shareholding was 56.6%.

Corporate Governance Report

Each year, the Board communicates with and addresses questions raised by Shareholders at the annual general meetings. The Chairman of the Company and Chairman of committees under the Board (or their representatives) had attended the 2006 Annual General Meeting and addressed questions raised by Shareholders. The Company also communicates with the Shareholders and the investors from time to time by way of e-mails, telephone or in writing on their valuable opinions.

The Group disseminates information on business development on a timely basis through various channels to maintain transparency of its operation. Apart from information disclosed in the annual reports, interim reports and circulars to Shareholders, most updated business development of the Group is also published in press conferences and announcements, as well as on the Company's website www.sihl.com.hk. Apart from the Group's business information, the Company's website also provides access to the websites of the major entities under the Group. The Company meets with analysts and overseas institutional investors from time to time, and has an e-mail address enquiry@sihl.com.hk for the purpose of investor relations, so that investors can make recommendations and enquiries. During the year, the Group participated in several seminars organized by associations within and outside the PRC for institutional investors. This had allowed the investors from various sectors to better understand the investment strategies, operation and prospects of the Group. The Company also organized a number of promotional activities for its 10th Anniversary, which had strengthened the communications with its investors.

The Group disseminates information to the public strictly in accordance with its internal guidelines on information disclosure. This ensures that the related information will be disclosed to the market in a fair, timely and accurate manner.

Procedures of Shareholders' Meeting

The notice for the Annual General Meeting of 2006 was set out in the 2005 Annual Report and dispatched to each Shareholder on 28th April 2006. At the general meeting, the Chairman had explained the procedures to demand a poll in such meeting and the procedures were set out in a circular to Shareholders dated 28th April 2006. At the 2006 Annual General Meeting held on 30th May 2006, the Chairman had proposed separate resolutions for each separate matter to be transacted at the meeting and demanded poll for all resolutions to be voted at the meeting with the power conferred to him by the Articles of Association. Secretaries Limited, the Share Registrar of the Company, was appointed as the scrutineer and was responsible for the arrangement of the voting procedures. The Company announced the results of the poll in the following business day and published the same on the websites of the Company www.sihl.com.hk and the Stock Exchange www.hkex.com.hk for inspection by each of the Shareholders.

Corporate Governance Report

Mechanism for the Trading of the Company's Shares

The Company currently maintains mechanisms for the trading of its shares in the Hong Kong, New York and London markets. Investors can trade ADR Level 1 shares set up by the Company in the over-the-counter market in the US. Each ADR represents 10 ordinary shares of the Company. Bank of New York, US, is the depository of the Company's ADR. In addition, the shares of the Company are also admitted to the Automated Quotation System of London Stock Exchange. Investors in Hong Kong can obtain ADR quotes and shares listing in London for each trading day of the Company's shares through the media.

V. Human Resources

Remuneration and Benefits Policies

A set of effective remuneration policies has been formulated to determine remuneration and benefits for all staff. Through its performance appraisal mechanism, the Company carries out annual reviews in accordance with its business performance, the individual performance of the staff, and market remuneration levels, in order to determine a reasonable and competitive compensation package for its employees. As at 31st December 2006, the Group's total number of employees was 11,886 (2005: 13,966), of which 95% were stationed in Mainland China and the rest were the Hong Kong employees. The average age of the employees was 37, whereas the average years of service was 10. The ratio of male to female staff was 59:41. In addition, 75% of the employees are engaged in sales and production. There is about 20% of the employees holding university degree or above. This year, staff salaries, allowances and bonuses (including Directors) totaled HK\$615 million (2005: HK\$531 million). Meanwhile, in order to ensure effective recruitment and successful retention of talents, the Company offers staff a compensation package that includes cash allowances, and medical and personal accident insurance. The Company operates a defined contribution pension scheme for its qualified employees. Furthermore, in compliance with Mandatory Provident Fund Schemes Ordinance, all employees are required to participate in the mandatory provident fund scheme. The assets of the two schemes are administered separately by independent custodian in accordance with relevant laws and regulations.

Share Options

Share options allow the Company to provide incentives to Directors, employees and eligible persons in a more flexible manner. Pursuant to the Share Option Scheme adopted by the Company on 31st May 2002, share options for 27,250,000, 10,000,000 and 5,000,000 shares were granted in September 2002, September 2005 and May 2006 respectively. The exercise price for the above batches of share options were HK\$11.71, HK\$14.89 and HK\$17.10 per share respectively. As at 31st December 2006, share options for 20,336,000 shares were exercised, of which share options for 7,383,000 shares were unexercised and lapsed.

Corporate Governance Report

In addition, the Company adopted a share option scheme for Mergen Biotech on 28th May 2004. The first batch of share options for 63,400 Mergen Biotech shares was granted in December 2004. Mergen Biotech is a subsidiary in which the Company owns an 85 percent interest, the major assets of the company is a 73.26 percent stake in Sunway Biotech. Sunway Biotech is principally engaged in the development and production of anti-cancerous drugs. The primary purpose for adopting the Mergen Biotech share option scheme was to offer relevant employees the opportunity to acquire a stake in Mergen Biotech, encouraging them to perform their work with the aim to appreciate Mergen Biotech's value.

Details of the share option schemes for the Company and Mergen Biotech are contained in note 38 to the financial statements.

Employee Training

The Company considers employees as its vital assets and commits to continuous staff training. We also recognize that, in a knowledge-based and increasingly competitive environment, a competent, dedicated and committed team of excellent employees can significantly contribute to the performance of the Company. During the year, the Company offered a variety of internal training programmes to staff at all levels, which covered financial management, review of new accounting standards, internal control and interpretations of laws and regulations. The Company also sponsored its staff to participate in training on specific topics and continuous professional education for specific professions, so as to expand their job-related knowledge, leverage their potential and demonstrate their abilities. Meanwhile, allowances are available to staff to take job-related courses. This scheme seeks to encourage employees to continue their education after work, so as to better equip themselves and broaden their horizons, allowing them to make a greater contribution to the Company.

Employee Relations

The Company encourages its employees to express opinions directly to the management about the Company's operation, future development strategies, and other matters of interest to employees. The Company also publishes its staff manual, which sets out rules for various work areas, company regulations and welfare policies. The Company also issues ethic codes for compliance by its staff, which allows them to clearly understand their rights and obligations in discharge of their duties. This will facilitate the staff to devote their best efforts to cope with the future development of the Company, and grow simultaneously with the Company. In order to enhance communication between the staff in Shanghai and Hong Kong, the Company arranges visits for staff between both cities as well as exchange meetings for the management staff of member enterprises. This helps staff share knowledge and exchange experience, cultivates teamwork, and enhances their identification and sense of belonging to the corporation.

By Order of the Board

Wong Mei Ling, Marina

Company Secretary

20th April 2007