

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

On 23 September 2005, the Company has adopted its own corporate governance code (with subsequent amendments) which is substantially similar or in exceeds as the Code on Corporate Governance Practices (the "Code") as set out in the Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Material deviations from the Code are explained in the report below.

BOARD OF DIRECTORS, CHAIRMAN AND CHIEF EXECUTIVE

The Board is responsible for formulating business strategies, and monitoring the performance of the business of the Group. Other than the daily operational decisions which are delegated to the management of the Group, most of the decisions are taken by the Board. All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Board currently comprised of four Executive Directors, namely Messrs. Lim Kia Hong (Chairman and Chief Executive Officer), Lim Kiah Meng, Lim Hwee Hai, and Madam Lim Hwee Noi, and three Independent Non-Executive Directors (the "INED"), namely, Mr. Lee Hiok Chuan, Ms. Ong Wui Leng and Mr. Ma Shiu Sun, Michael. Messrs. Lim Kia Hong and Lim Kiah Meng, and Madam Lim Hwee Noi are brother and sister. Mr. Lim Hwee Hai is spouse of Madam Lim Hwee Noi. Biographical details of each Director and relationship between board members are set out on page 25 of the annual report.

Each of the INED has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all INEDs meet the independent guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. One of the INED has more than twenty years experience in corporate banking, corporate finance and management.

The INEDs Mr. Lee Hiok Chuan and Ms. Ong Wui Leng are not appointed with a specific term as required by Code A.4.1, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-Laws 99(B). As such, the Directors consider that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less than exacting than those in the Code.

According to the Bye-Laws of the Company, at each annual general meeting one-third (or the number nearest to one-third) of the Directors at the time being shall retire from office provided that notwithstanding anything therein, the Chairman of the Board and Managing Directors of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. This deviates from the provision in Code A.4.2 which requires every Director to be subject to retirement by rotation at least once every three years. The Directors consider the deviation acceptable as the position of chairman shall be elected after the next Annual General Meeting. Also in view of the small number of the total Directors of the Company, the deviation is not material.

The positions of the Chairman and Chief Executive Officer are held by the same individual, Mr. Lim Kia Hong who is responsible for the charting of corporate strategies and direction of the Group. As Chairman of the Board, Mr. Lim provides leadership and plays a pivotal role fostering constructive dialogue between the Board, shareholders and management. As the Vice Chairman of the Board, Mr. Lim Kiah Meng plays a key role in developing operating policies and business development and ensures the effectiveness and efficiency of the business operations of the Group. According to the Bye-Laws of the Company, the position of chairman and vice-chairman shall be elected after next Annual General Meeting to be held on 31 May 2019. The deviation from the Code A.2.1 is considered acceptable.

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DIRECTORS NOMINATION POLICY

The nomination, appointment and removal of Directors are considered by the Nomination Committee. The Nomination Committee shall make recommendation to the Board whenever they consider appropriate.

The Company consolidated its nomination procedures and selection criteria of directors into the nomination policy of the Company (the “Directors Nomination Policy”), which was approved and adopted by the Company, and was effective on 1 January 2019. The summary of the Nomination Policy is as follows:

When considering a candidate nominated for directorship or a director’s proposed re-appointment, the Board will take into account the following factors as a reference:

- the candidate’s character and honesty
- whether the qualification, skills, experience, industry knowledge of the candidate meet the business needs or are in line with the long term development of the Company;
- effect on the board’s composition and diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and the compliance with the board diversity policy of the Company;
- commitment of the candidate to devote sufficient time to effectively discharge his/her duties. In this regard, the number and nature of offices held by the candidate in public companies or organizations, and other executive appointments or significant commitments will be considered;
- the requirement of appointing independence non-executive directors to the board under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the independence of a candidate pursuant to Rule 3.13 of the Listing Rules;
- any potential/actual conflicts of interest that may arise if the candidate is selected;
- for the appointment or re-appointment of independent non-executive directors, the independence of the candidate and his/her immediate family from the Company; and
- in the case of a proposed re-appointment of an independent non-executive director, the number of years he/she has already served.

the above factors are for reference only, and not meant to be exhaustive and decisive.

Subject to the provisions in the Company’s Articles of Association, if the Board recognizes the need to appoint an additional director, the following procedures should be adopted:

- the Board shall call a meeting and invite nominations of candidates from the Nomination Committee of the Company for consideration by the Board prior to its meeting;
- the Board may use any process it deems appropriate to assess the suitability of and the potential contribution to the Board by the candidates based on (but not limited to) the criteria set out above, which may include personal interviews, background checks, presentations or written submissions by the candidates and third party references;

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- the Board shall hold a physical meeting to consider the matter and avoid the making of decisions by written resolutions unless it is impractical that a physical meeting be held;
- the Board shall provide to the Shareholders for its consideration with all the information required, including information set out in Rule 13.51(2) of the Listing Rules in relation to the candidates;

In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, and to invite nominations from shareholders, a circular accompanying the notice of the relevant general meeting will be sent to shareholders of the Company. The circular will set out the lodgment period for shareholders to make the nominations. The names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in a notice to shareholders of the Company in due course.

BOARD DIVERSITY

The Company recognizes and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the talents, skills, regional and industry experience, background, gender and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All appointments of the members of the Board are made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective.

The Company considers that the current composition of the Board is characterised by diversity after taking into account its own business model and specific needs, and professional background and skills of the Directors.

BOARD COMMITTEES

The Board has established three Committees. The table below provides membership information of these Committees on which certain Board members serve:

Directors	Audit Committee	Nomination Committee	Remuneration Committee
Mr. Lim Kia Hong	—	C	M
Mr. Lim Kiah Meng	—	M	M
Mr. Lee Hiok Chuan	M	M	M
Ms. Ong Wui Leng	C	M	C
Mr. Ma Shiu Sun, Michael	M	M	M

Notes:

C — Chairman of the relevant Committee

M — Member of the relevant Committee

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AUDIT COMMITTEE

The Audit Committee is comprised of all INED. Ms. Ong Wui Leng was appointed as the Chairlady of the Audit Committee.

The main duties of the Audit Committee include:

- to consider the appointment, reappointment and removal of the external auditors, the audit fee and terms of engagements, and any questions of resignation or dismissal of that auditors;
- to monitor integrity of half-year and annual financial statements before submission to the Board;
- to review the Company's financial controls, internal control and risk management systems; and
- to review the Group's financial and accounting policies and practices.

The Audit Committee has met four times during the year ended 31 December 2018 and has reviewed the managements accounts, half-year, and annual financial results of the Group and its subsidiaries. Certain recommendations have been made to the internal control of the Company and its subsidiaries. Audit Committee had met the external auditors without the present of Executive Directors on reviewing the half year and annual financial results.

NOMINATION COMMITTEE

The Nomination Committee was set up with written terms of reference with effect from 28 March 2012 and is comprised of all INED and two Executive Directors, namely Messrs. Lim Kia Hong and Lim Kiah Meng. Mr. Lim Kia Hong is the Chairman of the Nomination Committee.

The duties of the Nomination Committee shall be:

- review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assess the independency of independent non-executive directors; and
- make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

A meeting was held during the year ended 2018 to review and discuss the composition of the Board of the Company, and to assess the independency of independent non-executive directors. The Nomination Committee considered that the experience, expertise, leadership and qualification of the existing Directors are sufficient to maintain corporate governance of the Company and manage the operations of the Group.

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REMUNERATION COMMITTEE

The Remuneration Committee was set up on 23 September 2005 and is comprised of all INED, and two Executive Directors, namely Messrs. Lim Kia Hong and Lim Kiah Meng, with Ms. Ong Wui Leng as Chairlady from 27 March 2012 onwards.

The Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and reviewing and approving the compensation payable to Executive Directors and senior management. A meeting was held during the year ended 31 December 2018, and the members had reviewed the remuneration policy and determined remuneration of Directors.

Pursuant to Code Provision B.1.5 of the Code, details of the annual remuneration of the directors and senior management by band for the year ended 31 December 2018 are as follows:

Remuneration band	Number of individuals
HK\$1 to HK\$1,000,000	3
HK\$1,000,001 to HK\$3,000,000	1
HK\$3,000,001 to HK\$5,000,000	2
HK\$5,000,001 to HK\$7,000,000	1

Details of the remuneration of each director for the year ended 31 December 2018 are set out in note 12 to the consolidated financial statements.

CORPORATE GOVERNANCE FUNCTIONS

The Board is collectively responsible for performing the corporate governance duties which have been formalised into the terms of reference of the Board, a summary of which are as follows:

- develop and review the Company's policies and practices on corporate governance and make recommendation to the Board;
- review and monitor the training and continuous professional development of Directors and senior management;
- review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and
- review the Company's compliance with the code and disclosure in the Corporate Governance Report.

The Board performed its corporate governance duties. The Board has reviewed the code of corporate governance of the Company for adoption of amendments to the Listing Rules, approval of the Dividend Policy, Directors Nomination Policy, Board Diversity Policy and the procedures for shareholders to propose a person for election as director (which has been disclosed in the Company's website). Corporate Governance Report contained in this Annual Report has approved by the Board.

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DIRECTORS' SECURITIES TRANSACTION

The Company adopted its own code of conduct regarding Directors' dealing in securities on 23 September 2005 (the "Code of Conduct") with subsequent amendments thereafter. The term of the Code of Conduct are no less exacting than the required standard set out in the Model Code set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Directors of the Company have complied with the Model Code and the Company's Code of Conduct.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibility for preparing the financial statements which give a true and fair view of the state of affair of the Group. The statement of the external auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 38 to 42.

AUDITORS' REMUNERATION

During the year ended 31 December 2018, the Group had engaged external auditors, Deloitte Touche Tohmatsu, to provide the following services.

	Service fee HK\$'000
Audit services	3,596
Tax advisory	25
Other services	3,647
	<u>7,268</u>

ATTENDANCE OF MEETINGS

The following table shows the attendance of each Director at general meeting, meetings of the Board and the above committees during the year 2018:

	General Meeting	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meeting during the year	(1)	(7)	(4)	(1)	(1)
Executive Directors					
Lim Kia Hong	1	7	N/A	1	1
Lim Kiah Meng	1	7	N/A	1	1
Lim Hwee Hai	1	7	N/A	N/A	N/A
Lim Hwee Noi	1	7	N/A	N/A	N/A
Independent Non-Executive Directors					
Lee Hick Chuan	1	7	4	1	1
Ong Wui Leng	1	7	4	1	1
Ma Shiu Sun, Michael	1	7	4	1	1

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RISK MANAGEMENT AND INTERNAL CONTROLS

System of internal controls is defined as a system of internal controls procedures which is used to help the achievement of business objectives, and safeguard the Group's assets; to ensure proper maintenance of accounting records and compliance with relevant legislation and regulations.

The management of the Group would evaluate the risk management and internal control system periodically and enhance the system when necessary. The Company has internal audit functions. The internal auditors reviewed the risk management and internal controls system on an ongoing basis covering all major operations of the Group on a rotational basis, and reported directly to the Audit Committee and Board on a regular basis.

Through the internal control functions of the Group, the Directors conduct three reviews of the effectiveness of the system of the internal control and risk management of the Group during the year. The Directors considered that the systems adequate and effective.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

The Company is responsible for arranging and funding suitable training for its directors. During the year 2018, the Company had organised a seminar regarding the latest developments in listing rules and other applicable regulatory requirement for the directors, to ensure compliance and enhance their awareness of good corporate governance practices. In addition, individual directors also participated in other courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or reading relevant materials. The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials. The Company has devised a training record to assist the Directors to record the training they have undertaken.

During the year, the Directors participated in continuous professional development activities as set out below:

	Attending trainings/ briefings/seminars
Executive Directors	
Lim Kia Hong	✓
Lim Kiah Meng	✓
Lim Hwee Hai	✓
Lim Hwee Noi	✓
Independent Non-Executive Directors	
Lee Hiok Chuan	✓
Ong Wui Leng	✓
Ma Shiu Sun, Michael	✓

COMPANY SECRETARY

Ms. Chiu Lai Chun, Rhoda has been appointed as company secretary of the Company since 2004. She is a Certified Public Accountant in Hong Kong. She has fulfilled the 15 hours of relevant professional training requirements under the Rule 3.29 of the Listing Rules for the year ended 31 December 2018.

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INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

To enhance the communication with investors, or shareholders, the Company has established several communication channels, including (a) the annual and extraordinary general meetings which provide a forum for shareholders to communicate directly with the Board; (b) printed corporate documents mailing to shareholders; (c) announcement disseminating the latest activities of the Group on the web-sites of the Company and the Stock Exchange of Hong Kong; (d) meeting with investment fund manager and investors; and (e) the Company's web-site providing an electronic means of communication.

The shareholders' meeting in 2018 was the annual general meeting held on 5 June 2018 at Kellett Room I, 3/F, The Excelsior, 281 Gloucester Road, Causeway Bay, Hong Kong to receive and consider the audited financial statements for the year ended 31 December 2017; to re-elect directors; and approve the general mandates for the issue and repurchase of the Company's share.

During the year under review, the Company has not made any changes to its Bye-Laws. An up to date version of the Company's Bye-Laws is available on web-sites of the Company and the Stock Exchange of Hong Kong. Shareholders may refer to the Company's Bye-Laws for further details of their rights.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, pursuant to the Company's Bye-Laws, a special general meeting shall be convened on the written requisition of any two or more shareholders holding at the date of the deposit of the requisition in aggregate not less than one-tenth of such of the paid up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company. Such requisition must state the objects of the meeting and must be signed by the shareholders and deposited at the Company's office.

For avoidance of doubt, a general meeting other than an annual general meeting or a meeting for the passing of special resolutions shall be called by notice in writing of not less than a period which is the longer of fourteen days and ten clear business days.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board. Contact details are as follows:

803 Nine Queen's Road Central, Hong Kong
Fax: (852) 2138 3928
Email: enquiry@sis.com.hk

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the web-sites of the Company (www.sisinternational.com.hk) and the Stock Exchange of Hong Kong (www.hkexnews.hk) immediately after the relevant general meetings.