

CORPORATE GOVERNANCE

The Company and its Directors are committed to maintaining high standards of corporate governance practices. To comply with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 14 of the Listing Rules and to enhance the corporate governance practices of the Group, two committees, namely Remuneration Committee and Audit Committee were established under the Board within the structure of corporate governance.

During the year, the Company has complied with most of the provisions of the CG Code with deviations from code provision A4.1 of the CG Code that two of the Independent Non-executive Directors of the Company are not appointed for specific terms. However, all directors (executive and independent non-executive) are subject to retirement by rotation in accordance with the Company’s Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less than exactly those in the CG Code.

BOARD OF DIRECTORS

As at 31 December 2006, the Board consists of seven Directors. Four of them were Executive Directors, namely Mr. Wu Kwai Yung, Mr. Zhao Tie Liu, Mr. Leung Hon Man and Dr. Wan Kwong Kee (resigned on 3 April 2007) and the remaining three were Independent Non-executive Directors, namely Mr. Zhou Haijun, Mr. Ng Wai Hung and Mr. Xu Zhi.

Biographical details of the Directors are set out in the section headed “Profile of Directors and Senior Management” in the Report of the Directors.

According to the Articles of Association of the Company, all directors appointed to fill a casual vacancy or as an addition to the Board should be subject to election at the first general meeting after their appointment. All directors should also be subject to retirement by rotation pursuant to the Articles of Association of the Company.

The Board is responsible for setting corporate strategies and policies of the Group. Business operation and daily management are delegated by the Board to the Executive Directors, the executive management under the supervision of the Board. Under the supervision and direction of the Executive Directors, the business plans and strategies are being implemented and executed.

CORPORATE GOVERNANCE REPORT

Board meetings are called and convened as required to discuss Group's business and transactions. During the year, board meetings held and attendance record are set out as follows:

Executive Directors	Attended
Mr. Wu Kwai Yung	5(5)
Mr. Zhao Tie Liu	5(5)
Dr. Wan Kwong Kee	2(5)
Mr. Leung Hon Man (<i>appointed on 21 November 2006</i>)	1(1)

Independent Non-executive Directors	
Mr. Zhou Haijun	1(5)
Mr. Ng Wai Hung	0(5)
Mr. Xu Zhi	1(5)

Within the Board, there are three Independent Non-executive Directors with very much experience in legal and pharmaceutical industry and one of them has accounting and financial management expertise. As such, the Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules.

The Company has received annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules from each of the Independent Non-executive Directors and considers each of the Independent Non-executive Directors to be independent.

None of the Directors has any financial, business, family relationships with each other.

ROLES OF CHAIRMAN AND MANAGING DIRECTOR

Mr. Wu Kwai Yung is the Chairman of the Board and Mr. Zhao Tie Liu is the Managing Director of the Company. There is a clear distinction between the responsibilities of the Chairman and the Managing Director. The primary responsibilities of the Chairman are leading the Board and ensuring the Board operates effectively. The Managing Director is responsible for managing the business of the Group and overseeing the day-to-day operation of the Group.

REMUNERATION COMMITTEE

The Remuneration Committee was established in April 2005 and comprises three Independent Non-executive Directors and two Executive Directors. As at 31 December 2006, the members of the Remuneration Committee were as follows:

Mr. Zhou Haijun	<i>(Member, Independent Non-executive Director)</i>
Mr. Ng Wai Hung	<i>(Member, Independent Non-executive Director)</i>
Mr. Xu Zhi	<i>(Member, Independent Non-executive Director)</i>
Mr. Zhao Tie Lie	<i>(Member, Executive Director)</i>
Dr. Wan Kwong Kee	<i>(Member, Executive Director)</i>

The Remuneration Committee has adopted a set of terms of reference which is in line with the CG Code. The duties of the Remuneration Committee include the following:

- (i) to make recommendations on the Group's policy and structure for the remuneration of the Directors and senior management;
- (ii) to determine the remuneration packages of the Directors and senior management; and
- (iii) to review and approve performance-based remuneration.

No Director or any of his associates will involve in deciding his own remuneration.

The remuneration package and policy of the Company primarily consist fixed base salary, discretionary bonus and share options. Details of emoluments of the Directors for the year are disclosed in note 10 to the financial statements.

During the year, a meeting of the Remuneration Committee was held to review the remuneration policy and package of the Group.

AUDIT COMMITTEE

The Audit Committee was established in September 1999. In April 2005, the Company adopted a set of new terms of reference which is in line with the CG Code and set out the authority and duties of the Audit Committee.

The committee has three members and all of them are Independent Non-executive Directors:

Mr. Zhou Haijun	<i>(Chairman, Independent Non-executive Director)</i>
Mr. Ng Wai Hung	<i>(Member, Independent Non-executive Director)</i>
Mr. Xu Zhi	<i>(Member, Independent Non-executive Director)</i>

During the year, the Audit Committee met twice and the attendance record are set out as follows:

Independent Non-executive Directors	Attended
Mr. Zhou Haijun	2(2)
Mr. Ng Wai Hung	1(2)
Mr. Xu Zhi	2(2)
In attendance	
Mr. Wu Kwai Yung	1(2)
Mr. Zhao Tie Liu	2(2)
External auditors	2(2)
Financial controller	2(2)

In these meetings, the Audit Committee had reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2005 and the unaudited interim financial statements for the period ended 30 June 2006. At the request of the committee, the Group's external auditors have been engaged to carry out the audit of the audited annual financial statements and the review of the unaudited interim financial statements.

NOMINATION OF DIRECTORS

The Board is responsible for considering suitability of a candidate for directorship and making decision of appointing a director. Board meeting will be convened to discuss nomination of directors. The Board will review the qualifications of the candidate on the basis of his/her qualifications, experience, background, expertise and knowledge as well as the requirements under the Listing Rules.

During the year ended 31 December 2006, Mr. Leung Hon Man was appointed as Executive Director.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company confirms that all Directors have complied with the required standard set out in the Model Code throughout the year ended 31 December 2006.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

RSM Nelson Wheeler was the auditors of the Group until 23 November 2006 and provided audit and review services to the Group. The Group also engaged CCIF CPA Limited to provide non-audit services during the year.

RSM Nelson Wheeler, tendered their resignation as the Auditors of the Company and its subsidiaries with effect from 24 November 2006 because the Company and RSM Nelson Wheeler could not agree on the audit fee for the financial year ended 31 December 2006. CCIF CPA Limited were appointed as the Auditors of the Company and its subsidiaries to fill the casual vacancy following the resignation of RSM Nelson Wheeler until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statements for the year ended 31 December 2006 have been audited by CCIF CPA Limited.

During 2006, audit fee incurred by the Group amounted to approximately HK\$403,000. Non-audit services fee which was related to review services and preparation of comfort letters amounted to approximately HK\$668,000.

FINANCIAL REPORTING AND INTERNAL CONTROL

Statements about the respective responsibilities of the Directors and Auditors on the preparation of the financial statements are set out in the Independent Auditor's Report. The Directors acknowledge that they are responsible for preparing the financial statement for the year ended 31 December 2006 and the financial statements have been prepared on a going concern basis.

The Board has the overall responsibilities of maintaining a sound and effective internal control system for the Group. The Group's system of internal control includes a defined management structure with limits of authority. The system is designed to help the Group to achieve business objective, safeguard assets against unauthorized use, ensure the maintenance of proper accounting records for the provision of reliable financial information, and ensure compliance with relevant legislation and regulations. The system is designed to manage risks of failure in operational systems and foster achievement of corporate objectives. The internal control system is subject to the review of the Audit Committee.

During the year, the Board has reviewed with the Audited Committee the system of internal control of the Group.

COMMUNICATION WITH SHAREHOLDERS

The Board believes that general meetings are important occasions for communication and exchanging views with the shareholders. At the forthcoming annual general meeting, separate resolutions will be proposed for each substantially separate issue, including the re-election of individual retiring Directors.

In addition to the biographies of each of the Directors to be re-elected at the annual general meeting, procedures for and the rights of the shareholders to demand a poll are also included in the Company's circular to be despatched to the shareholders.