

CORPORATE GOVERNANCE REPORT

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 I4 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 and throughout the year ended 31 December 2005, the Board consists of six Directors. Three of them were Executive Directors, namely Mr. Wu Kwai Yung, Mr. Zhao Tie Liu and Dr. Wan Kwong Kee 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.

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 two Executive Directors, Mr. Zhao Tie Liu and Dr. Wan Kwong Kee. Under the supervision and direction of the Executive Directors, the business plans and strategies are being implemented and executed.

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	3(4)
Mr. Zhao Tie Liu	3(4)
Dr. Wan Kwong Kee	3(4)
Independent Non-executive Directors	
Mr. Zhou Haijun	4(4)
Mr. Ng Wai Hung	1(4)
Mr. Xu Zhi	4(4)

In 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. The members of the Remuneration Committee are 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 7 to the financial statements.

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During the year, no meeting of the Remuneration Committee was held but it is expected the committee will meet at least once a year. A meeting of the Remuneration Committee will be convened in 2006.

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	0(2)
Mr. Xu Zhi	2(2)
In attendance	
Mr. Wu Kwai Yung	1(2)
Mr. Zhao Tie Liu	1(2)
Dr. Wan Kwong Kee	1(2)
External auditors	2(2)
Financial controller	2(2)

In these meetings, the Audit Committee has 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 2004 and the unaudited interim financial statement for the period ended 30 June 2005. 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.

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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.

No new director was appointed during the year ended 31 December 2005.

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 2005.

External Auditors and Auditors' remuneration

Moore Rowland Mazars was the auditors of the Group during the year ended 31 December 2005 and provided audit and review services to the Group. The Group also engaged RSM Nelson Wheeler to conduct a due diligence review during the year.

After the year end, Moore Rowland Mazars, had tendered their resignation as the Auditors of the Company and its subsidiaries with effect from 9 February 2006 because the Company and Moore Rowland Mazars could not agree on mutually acceptable completion date of audit. RSM Nelson Wheeler were appointed as the Auditors of the Company and its subsidiaries with effect from 10 February 2006 to fill the casual vacancy following the resignation of Moore Rowland Mazars until the conclusion of the next annual general meeting of the Company. The annual financial statements for the year ended 31 December 2005 have been audited by RSM Nelson Wheeler.

During 2005, audit and review fee incurred by the Group amounted to approximately HK\$620,000. Non-audit services fee which was related to the due diligence review amounted to approximately HK\$920,000.

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 Auditors' Report. The Directors acknowledge that they are responsible for preparing the financial statement for the year ended 31 December 2005 and the financial statements have been prepared on a going concern basis.

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