

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (“Board”) considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (“Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of the Hong Kong Limited (the “Stock Exchange”) for the year ended 31 December 2006, except for the deviation from the Code Provision A.2.1 that the roles of Chairman and Chief Executive Officer (defined as Managing Director by the Company) should be separate and should not be performed by the same individual.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

The Board comprises the following directors during the year and up to the date of this report. None of the directors is related to each other and the Board of the Company comprises:

Non-executive Director:

HE Haochang *Chairman (re-designated as Non-executive Director and resigned as Managing Director on 1 April 2007)*

Executive Directors:

LAM Siu Hung *Managing Director (re-designated on 1 April 2007)*

SITU Min *Chief Financial Officer & Qualified Accountant*

LI Songquan *(appointed as Director on 1 January 2007 and as Deputy Managing Director on 1 April 2007)*

LI Feng *(resigned on 1 January 2007)*

Independent Non-executive Directors:

CHAN Ting Chuen, David

CHEUNG Kin Piu, Valiant

NG Pui Cheung, Joseph

As at the date of this report, the Board comprises a total of seven directors, including one non-executive director, three executive directors and three independent non-executive directors. In addition, one of the independent non-executive directors possesses appropriate professional accounting qualifications and financial management expertise.

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BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Composition and Role (Continued)

The principal focus of the Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies; approval of annual budgets and business plans; evaluating the performance of the Group; and oversight of management. The Board also monitors the financial performance and the internal controls of the Group's business operations.

Every newly appointed director of the Company shall receive a set of information package from the secretary of the Company on the first occasion of his appointment. This information package is a comprehensive and formal induction on the responsibilities and on-going obligations to be observed by a director. In addition, it includes materials on the operations and business of the Company. The senior management and the secretary of the Company will subsequently conduct such briefing as is necessary, to ensure that the directors have a proper understanding of the operations and business of the Company and that they are aware of their responsibilities under the laws and applicable regulations.

With a wide range of expertise and a balance of skills, the independent non-executive directors bring independent judgment on issue of strategic direction, development, performance and risk management through their contribution at the Board meetings and the relevant committee works. The independent non-executive directors also serve the important function of ensuring and monitoring the basis for an effective corporate governance framework including internal controls. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The directors are regularly updated on governance and regulatory matters. There is an established procedure for directors to obtain independent professional advice at the expense of the Company in the furtherance of their duties, if necessary. The Company has also arranged appropriate directors and officers liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis. The directors shall have separate and independent access to the Company's senior management.

The Board meets regularly at quarterly basis together with ad hoc meeting is necessary to review the overall strategy and to monitor the operation as well as the financial performance of the Group. The Chairman is primarily responsible for drawing up and approving the agenda of each Board meeting in consultation with the directors. Notice of at least 14 days have been given to all directors for all regular meetings and the directors can raise and incorporate matters for discussion in the agenda. Agenda and accompanying Board papers in respect of regular Board meetings are sent out in full to the directors within reasonable time before the meeting. Draft minutes of all Board meetings are circulated to the directors for comment within a reasonable time prior to confirmation. Minutes of the Board meetings are kept by the secretary of the Company and the directors have access to Board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

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BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Composition and Role (Continued)

During the year, nine full board meetings, of which four were regular quarterly meetings, were held and the individual attendance of each director is set out below:

Directors	Attendance of Board Meeting	Attendance Rate
Non-executive Director:		
HE Haochang <i>Chairman</i> <i>(re-designated as Non-executive Director on 1 April 2007)</i>	9/9	100%
Executive Directors:		
LAM Siu Hung	9/9	100%
SITU Min	9/9	100%
LI Feng	7/9	78%
Independent Non-executive Directors:		
CHAN Ting Chuen, David	8/9	89%
CHEUNG Kin Piu, Valiant	9/9	100%
NG Pui Cheung, Joseph	9/9	100%

Chairman and Managing Director

The Company is committed to maintaining high standard of corporate governance. The Company has complied with the Code as set in Appendix 14 of the Listing Rule throughout the year ended 31 December 2006 except for the deviation from the roles of Chairman and Managing Director of the Company should be separate and should not be performed by the same individual.

Mr. HE Haochang has been the Chairman and Managing Director of the Company since 19 July 2001. This deviates from the Code Provision A2.1 that the roles of Chairman and Managing Directors should be separated and should not be performed by the same individual. With effect from 1 April 2007, Mr. HE resigned as the Managing Director of the Company and has been re-designated as a non-executive director but remaining as the Chairman of the Company. On even date, Mr. LAM Siu Hung was appointed as the Managing Director of the Company. Throughout the period in which Mr. He was the Chairman and Managing Director of the Company, the principal of segregation of duty had been carried out among members of the Board for the purposes of balance of power and authority in place, and all directors were freely to brief on issues arising at the Board meeting. The Board keeps such attitude and character in the future.

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BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Appointments and Re-election of Directors

There should be a formal, considered and transparent procedure for the appointment of new directors to the Board. There should be plans in place for orderly succession for appointments to the Board. The directors should be subject to re-election at regular intervals. The Company must explain the reasons for the resignation or removal of any director.

On 1 January 2007, Mr. LI Songquan was nominated and appointed by the Board as an executive director of the Company to replace the resigned director, Mr. LI Feng, on that date. Further, on 1 April 2007, Mr. LI Songquan was appointed as the Deputy Managing Director of the Company and his remuneration was determined by the remuneration committee.

All the independent non-executive directors are appointed for a specific term and subject to re-election. Mr. CHAN Ting Chuen, David has a service contract with the Company for a term of one year together with Mr. CHEUNG Kin Piu, Valiant and Mr. NG Pui Cheung, Joseph have service contracts for a term of two years with the Company.

The Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the article 92 of the articles of association of the Company, a director appointed by the Board to fill a casual or as an addition to the Board. Any director so appointed shall hold office only until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following annual general meeting (in case of an addition to the exiting Board), and shall then be eligible for re-election. Furthermore, according to the article 101 of the articles of association of the Company, at each annual general meeting one-third of the directors for the time being, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office. The directors to retire in every year shall be those who have been longest in office.

Corporate Governance Report

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Audit Committee

The audit committee has established for many years and it comprises three independent non-executive directors. The Board considers that each audit committee member has board commercial experience and there is a suitable mix of expertise in the business, accounting and financial management on the audit committee. The composition and members of the audit committee complies with the requirements under the Listing Rule 3.21. The written terms of reference which describe the authority and duty of the audit committee was subsequently amended in January 2005 to conform to the Code provisions, a copy of which is posted on the Company's website.

The audit committee meets regularly to review the reporting of financial and other information to shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process. The audit committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors. During the year, the audit committee had held one independent private meeting with the auditors where without the presence of non-executive director, executive directors and senior management so the audit committee members can feel freely to communicate with the auditors.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the accounts for the year ended 31 December 2006.

During the year, two audit committee meetings were held together with the auditors and senior management and the individual attendance of each member is set out below:

Independent Non-executive Directors	Attendance of Audit	
	Committee Meeting	Attendance Rate
CHAN Ting Chuen, David (<i>Chairman</i>)	2/2	100%
CHEUNG Kin Piu, Valiant	2/2	100%
NG Pui Cheung, Joseph	2/2	100%

Remuneration Committee

The remuneration committee was established in 2005 and the majority of the members are the three independent non-executive directors together with the Chairman of the Company. None of the member or any associate with them should be involved in deciding his own remuneration. The remuneration committee advises the Board on the Group's overall policy and structure for the remuneration of the directors and senior management. The written terms of reference which describe the authority and duty of the remuneration committee is posted on the Company's website.

In determining the emolument payable to the directors, the remuneration committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

Corporate Governance Report

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Remuneration Committee (Continued)

The objectives of the Company's remuneration policy are:

1. to provide an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs,
2. to provide base remuneration to the employees that is competitive to the industry and general market condition,
3. to award employees in recognition of good individual and corporate performance, and
4. to encourage future employee contributions to achieve overall corporate goals.

The remuneration package is structured to attract and retain the best talent available, and will contain a combination or modification of some or all of the four main components:

1. Base salary

Base salary and wage rate ranges are established for each position by evaluating the responsibilities and the duties required to be performed. The actual salary or wage rate for person filling the position is determined based on the experience and ability of the individual selected for the position.

2. Safe incentive bonus

Safe incentive bonus is linked to 佛山市沙口發電廠有限公司 (Foshan Shakou Power Plant Co., Ltd) ("Shakou JV") safety operations. All ranges of staff responsible for the operations of Shakou JV power plant is entitled to that bonus in order to encourage the safety operations.

3. Share option scheme

Share option scheme for purchase shares in the Company are granted to the employees from time to time at the discretion of the Board for retaining human resources and motivating future performance of the employees. Details refer to the report of directors.

4. Other benefits

In addition to the above, the Group offers customary and/or mandatory benefits to employees, such as retirement fund scheme, insurance and paid holiday, with reference to prevailing practices in relevant jurisdictions.

Corporate Governance Report

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Remuneration Committee (Continued)

During the year, one remuneration committee meeting was held and the individual attendance of each member is set out below:

Directors	Attendance of Remuneration Committee Meeting	Attendance Rate
Independent Non-executive Directors:		
CHAN Ting Chuen, David (<i>Chairman</i>)	1/1	100%
CHEUNG Kin Piu, Valiant	1/1	100%
NG Pui Cheung, Joseph	1/1	100%
Non-executive Directors:		
HE Haochang (re-designated as Non-executive Director on 1 April 2007)	1/1	100%

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors’ securities transactions. Specific enquiry has been made with all directors and the directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year. Furthermore, senior management who are likely to be possession of unpublished price sensitive information, have been required to comply the provisions of the Model Code.

FINANCIAL REPORTING

The Board should present a balanced, clear and comprehensible assessment of the Company’s performance, position and prospects. Management shall provide such explanations and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY STATEMENT

The directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2006, the directors have:

1. approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;
2. selected and applied consistently appropriate accounting policies;
3. made judgments and estimates that are prudent and reasonable; and
4. prepared the accounts on the going concern basis.

The statement about the directors' reporting responsibilities is set out in the Independent Auditor's Report on page 33 of this annual report.

AUDITORS' REMUNERATION

The external auditors of the Company KPMG provided audit services to the Company and the Group for the year ended 31 December 2006 and also reviewed the 2006 unaudited interim financial report of the Group. The fees charged for the aforesaid services amounted to HK\$1,700,000. Furthermore, KPMG had provided the following other services to the Company during year ended 31 December 2006.

	HK\$
Acting as reporting accountants for the issue of circular in relation to the very substantial acquisition and connected transaction in 51% equity interest in Foshan Dezhong Pharmaceutical Co. Ltd. ("DZH") and Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("FLX")	1,760,000
Acting as reporting accountants for the issue of circular in relation to the very substantial disposal and connected transaction in 80% equity interest in Shakou JV	1,205,000
	<hr/> 2,965,000 <hr/>

Corporate Governance Report

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has conducted an annual evaluation of the system of internal controls which covered relevant financial, operational, compliance control and risk management function within an established framework.

The internal control process is conducted by the Board with the supporting of management and other designated personal. It is designed to provide reasonable assurance regarding the achievement of objectives.

An annual evaluation was performed by the Company to perform documentations and review on the internal control system of the Group. This evaluation covered all material controls including financial, operational and compliance controls and risk management functions. This evaluation had also covered the first round evaluation in respect of DZH and FLX, both companies were acquired on 9 October 2006. The results of this evaluation had been totally discussed in a full Board meeting. The Board believed that the effectiveness of the Group's internal controls and key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with applicable laws and regulations. Nevertheless, the Board would endeavour its best effect to enhance and improve the internal controls as appropriate (especially for the recently acquired DZH and FLX).

COMMUNICATION WITH SHAREHOLDERS

The Board has endeavoured to maintain an on-going dialogue with the shareholders and in particular, use annual general meetings or other general meetings to communicate with the shareholders and encourage their participation by providing forum for them to raise comments and exchange views with the board. The Company's website offers communication channel between the Company and the shareholders, and also frequently updated key information of the Group are available on the Company's website.

VOTING BY POLL

The Company regularly informs the shareholders of the procedure for voting by poll and ensures compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.