

### A. CORPORATE GOVERNANCE PRACTICES

The Company and its subsidiaries (the "Group") recognise the importance of achieving and monitoring the high standard of corporate governance consistent with the need and requirements of its business and the best interest of all of its shareholders. The Group is fully committed to doing so. During the year ended 31 March 2006, the Company has adopted and applied the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") save as disclosed below. It is with the objectives in mind that the Group has applied such principles and will comply with the individual code provisions.

- (a) Code provision A1.3 stipulates that 14-days notice should be given for each board meeting. The Company agrees that sufficient time should be given to the directors of the Company (the "Directors") in order to make a proper decision. In these respects, the Company adopts a more feasible approach (and yet sufficient time has been given) in convening board meetings to ensure efficient and prompt management decisions could be made.
- (b) Code provision A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from the above code provision as the independent non-executive Directors ("INEDs") are not appointed for specific terms. According to the bye-laws of the Company, however, the INEDs are subject to retirement and re-election. The reason for the deviation is that the Company believes that the Directors ought to be committed to representing the long term interest of the Company's shareholders.
- (c) Code provision A4.2 stipulates that every director should subject to retirement by rotation at least once every three years. According to the bye-laws of the Company, one-third of the Directors shall retire from office by rotation provided that the Chairman, Deputy Chairman or managing Director shall be subject to retirement by rotation. The Company's bye-laws deviate from the code provision. The Company considered that the continuity of the Chairman/Deputy Chairman/managing Director and their leadership is essential for the stability of the business and key management. The rotation methodology ensures a reasonable proportion of Directors in continuity which is to the best interest of the Company's shareholders.

### A. CORPORATE GOVERNANCE PRACTICES (Continued)

- (d) Code provisions B1.1-5 stipulate the establishment of a remuneration committee, its operations and its term of reference. In addition, Code provision C3.3 stipulates the terms of reference of the audit committee. The previous terms of reference of our audit committee do not fully cover those set out in Code provision C3.3. The Company has adopted terms of reference as set out in Code provision C3.3 and set up a remuneration committee according to the Code provisions B1.1-5 on 16 December 2005.

### B. DIRECTORS' SECURITIES TRANSACTIONS

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 as the Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of the Directors, the Directors have complied with the required standards set out in the Model Code throughout the accounting period covered by the annual report.

### C. BOARD OF DIRECTORS

The board of Directors (the "Board") comprises five executive Directors and three independent non-executive Directors. The board of Directors as at the date of this annual report are as follows:

#### **Executive Directors**

Dr. Mao Yu Min (*Chairman*)

Mr. Ho Chin Hou

Mr. Ho Yu Ling

Mr. Li Qiang

Dr. Xie Yi

#### **Independent Non-executive Directors**

Mr. Fang Lin Hu

Mr. Xue Jing Lun

Ms. Jin Song

There is no other relationship (including financial, business, family or other material/relevant relationship) among the members of the Board.

### C. BOARD OF DIRECTORS (Continued)

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal control and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

Each of the INEDs has complied with the provisions set out in Rule 3.13 of the Listing Rules and has confirmed that he/she is independent of the Company and its connected persons (as defined in the Listing Rules) and the Company also considers that they are independent under the Listing Rules. Of the three INEDs, Ms. Jin has appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

During the year, seven Board meetings were held and the individual attendance of each Director is set out as follows:

Name of Directors	Number of attendance
Dr. Mao Yu Min	7/7
Mr. Ho Chin Hou	5/7
Mr. Ho Yu Ling	7/7
Mr. Li Qiang	6/7
Dr. Xie Yi	7/7
Mr. Fang Lin Hu	3/7
Mr. Xue Jing Lun	4/7
Ms. Jin Song	4/7

There is no new appointment and removal of Directors and the Board did not appoint a nomination committee during the year.

### D. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. Mao Yu Min, chairman of the Company, is responsible for the management of the Board and Mr. Ho Yu Ling is responsible for the day-to-day management of the Group's business. Their roles are clearly defined and segregated to ensure balanced power and responsibilities.

### **E. NON-EXECUTIVE DIRECTORS**

Pursuant to Code provision A4.1, non-executive directors should be appointed for a specific term, subject to re-election and, pursuant to Code provision A4.2, every director shall retire by rotation at least once every three years. None of the INEDs of the Company is appointed for a specific term and according to the bye-laws of the Company, one-third of the directors shall retire from office by rotation and become eligible for re-election. The reason for the deviation is that the Company believes that the INEDs ought to be committed to representing the long term interest of the Company's shareholders and the rotation methodology ensures a reasonable proportion of Directors in continuity which is to the best interest of the Company's shareholders.

### **F. REMUNERATION OF DIRECTORS AND REMUNERATION COMMITTEE**

The Remuneration Committee was set up on 16 December 2005 with specific terms of reference which state clearly its authority and duties. It advises the Board on the remuneration of the Directors and senior management of the Company.

The current members of the Remuneration Committee are Mr. Fang Lin Hu (Chairman), Mr. Xue Jing Lun and Ms. Jin Song. In line of good and fair practice, the Remuneration Committee currently consists of all INEDs.

The emoluments of the Directors are reviewed and recommended by the Remuneration Committee and/or decided by the Board as authorised by the shareholders at the annual general meeting according to individual performance and prevailing market conditions. The Company has also adopted a share option scheme as an incentive to the Directors and the senior management. The Board conducts regular review of its structure, use and composition with particular attention to the skills, knowledge and experience of individual members. The issue of succession planning is also considered at these meetings.

The Remuneration Committee was established in December last year, no meeting has been held until July 2006. The Remuneration Committee considers that the existing terms of the employment of the Directors and the senior management are fair and reasonable.

### **G. AUDITORS' REMUNERATION**

The remuneration paid to the auditors of the Company for audit related services for the year ended 31 March 2006 amounted to HK\$0.62 million. The non-auditing services performed was taxation compliance services and auditing of opening balances and the fee amounted approximately HK\$0.3 million was paid.

During the year, Ernst & Young resigned as auditors of the Company because the Company and Ernst & Young could not reach an agreement on the audit fees for the financial year ended 31 March 2006. The Company subsequently appointed HLB Hodgson Impey Cheng as the auditors of the Company with effect from 22 March 2006.

There is no inconsistency between the view of the Board and the Audit Committee as to the election, appointment and resignation of the external auditors.

### **H. AUDIT COMMITTEE**

The Company has established an Audit Committee with specific written terms of reference. The previous terms of reference of our audit committee do not fully cover those set out in Code provision C3.3. The Company has adopted terms of reference as set out in Code provision C3.3 on 16 December 2005.

The major role and function of the Audit Committee are to ensure the maintenance of proper relationship with the Company's auditors, the establishment of proper review and control arrangements relating to systems of internal control, financial reporting and the compliance to applicable reporting requirements.

## H. AUDIT COMMITTEE (Continued)

The current members of the Audit Committee are Mr. Fang Lin Hu (Chairman), Mr. Xue Jing Lun and Ms. Jin Song. A total of two meetings have been held in the year under review and the individual attendance of members are as follows:

Name of Directors	Number of attendance
Mr. Fang Lin Hu	1/2
Mr. Xue Jing Lun	2/2
Ms. Jin Song	2/2

The Audit Committee reviewed the half yearly and full year consolidated financial statements, including the Group's adopted accounting principles and practices, systems of internal control and financial reporting matters (in conjunction with the external auditors for the full year results). The Audit Committee endorsed the accounting treatments adopted by the Company and, to the best of its ability assured itself that the disclosure of the financial information in this report, complies with the applicable accounting standards and Appendix 16 of the Listing Rules.

## I. FINANCIAL REPORTING

The directors acknowledged their responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is the auditors' responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion to the Company's shareholders.

In the auditors' report on pages 32 to 34, they have mentioned the uncertainty as to the recoverability of the carrying value of a technical know-how (the "Know-how") in relation to an oral insulin product (the "Product") and other receivables. The Product has completed the phase II clinical trial. The result has been submitted to the State Food and Drug Administration of the People's Republic of China ("SFDA") for approval and the approval process is still in progress up to the date of approval of these financial statements. The directors of the Company therefore considered no impairment provision against the carrying amount for the Know-how is necessary. Further details of the Know-how and the receivable are set out in notes 8 and 13 to the financial statements respectively.