



SCIENCE

# Corporate Governance Report

Wuyi Pharmaceutical is committed to achieve a high standard of corporate governance practice, such that the interests of our shareholders, customers, employees as well as the long term development of the Company can be safeguarded. To this end, the Company has established the Board, audit committee, remuneration committee and nomination committee ensuring that are up to the requirements as being diligent, accountable and professional. Deloitte Touche Tohmatsu has been appointed as the Group's external auditors, and Sun Hung Kai International Limited has been appointed as the compliance adviser.

The Company has adopted the code provision of the Code on Corporate Governance Practices (the "Code") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). In the opinion of the Board, the Company had complied with the Code provision of the Code set out in Appendix 14 to the Rules of Governing the Listing of Securities on The Stock Exchange ("Listing Rules") of the Stock Exchange since the Company's listing on 1 February 2007 ("Listing Date") except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and Chief Executive Officer of the Company. Given the Group's current stage of development, the role of Chairman and Chief Executive Officer have not been separated. The Board considers that vesting the roles of Chairman and the Chief Executive Officer in the same person facilitates the execution of the Company's business strategies and maximizes the effectiveness of its operations. There are three Independent Non-executive Directors in the Board, all of them possess adequate independence and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests.

## Directors' Securities Transactions

The Board had adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the Company's own code for securities transactions by its Directors. Following specific enquiry made with all Directors, the Company has confirmed that all Directors had been in compliance with the required standard mentioned above since the Company's listing on the Listing Date.

## Board of Directors

To maintain a high level of independence and objectivity in decision making, and to exercise its power of supervising the management of the Company in a comprehensive and equitable manner, the Board comprises four Executive Directors (Messrs. Lin Ou Wen, Lin Qing Ping, Xu Chao Hui and Dennis Luan Thuc Nguyen), two Non-executive Directors (Messrs. Tang Bin and John Yang Wang) and three Independent Non-executive Directors (Messrs. Goh Jin Hian, Liu Jun and Lam Yat Cheong).

Mr. Lin Ou Wen, the Chairman is the younger brother of Mr. Lin Qing Ping.

To ensure the Board running in an independent and accountable manner, the four Executive Directors have been assigned with different responsibilities within our operation.

Each of the three Independent Non-executive Directors has professional expertise and extensive experience in the areas of accounting, economics, computing control and management, and the business administration respectively. Their mix of professional skills and experience is an important element in the proper functioning of the Board and in ensuring a high standard of objective debate and overall input to the decision-making process. The Board confirmed that the Company has received from each Independent Non-executive Director an annual confirmation of their independence. The Company considers all of the Independent Non-executive Directors are independent. The Company believes the Independent Non-executive Directors can adequately act for the benefits of our shareholders.

The principal functions of the Board are:

- To approve board policies, strategies and financial objectives of the Company and to monitor the performance of management;
- To oversee the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
- To approve major funding proposals, investment and divestment proposals;
- To approve the nominations of Board members and appointment of key personnel;
- To assume responsibility for corporate governance;
- To approve interested person transactions of a material nature.

while daily operation and administration are delegated to the management.

The Board meets at least 4 times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Company that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of the Independent Non-executive Directors are actively sought by the Company if they are unable to attend the meeting in person. Board minutes are kept by the Company Secretary and are sent to the Directors for records.

The biographical details of the Directors are provided on pages 19 to 20 of this report.

### Board Attendance

During the year, no attendance rate of the Board was counted as the Company has been listed on the Main Board of the Stock Exchange on 1 February 2007. Number of attendance of the individual Directors at the board meetings for the year is set out in the table below.

Directors	Number of attendance
<strong>Executive Directors</strong>	
Mr. Lin Ou Wen (Chairman)	—
Mr. Lin Qing Ping	—
Mr. Xu Chao Hui	—
Mr. Dennis Luan Thuc Nguyen	—
<strong>Non-executive Directors</strong>	
Mr. Tang Bin	—
Mr. John Yang Wang	—
<strong>Independent Non-executive Directors</strong>	
Mr. Goh Jin Hian	Not Applicable*
Mr. Liu Jun	Not Applicable*
Mr. Lam Yat Cheong	Not Applicable*

\* Since, the Independent Non-executive Directors of the Company have been appointed on 7 January 2007. Therefore, the three Independent Non-executive Directors were not required to attend the board meeting held in 2006. The three Independent Non-executive Directors have duly performed their duties since the Listing Date, and have reviewed the results for the year ended 31 December 2006 as required by the Listing Rules.

### Chairman and Chief Executive Officer

Mr. Lin Ou Wen is both the Chairman and the Chief Executive Officer of the Company. Given the Company's current stage of development, the Board considers that vesting the roles of Chairman and the Chief Executive Officer in the same person facilitates the execution of the Company's business strategies and maximizes the effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

### Non-executive Directors

All the existing Non-executive Directors, including Independent Non-executive Directors, were entered into letters of appointment with the Company for a specific term of three years. They are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

### Committees

The monitoring and assessment of certain governance matters are allocated to three committees which operate under written terms of reference. The composition of the committees up to the date of this report is set out in the table below.

Directors	Audit Committee	Remuneration Committee	Nomination Committee
<b>Executive Directors</b>			
Mr. Lin Ou Wen ( <i>Chairman</i> )	–	Member	Chairman
Mr. Lin Qing Ping	–	–	Member
Mr. Xu Chao Hui	–	–	–
Mr. Dennis Luan Thuc Nguyen	–	Chairman	–
<b>Non-executive Directors</b>			
Mr. Tang Bin	–	–	–
Mr. John Yang Wang	–	–	–
<b>Independent Non-executive Directors</b>			
Mr. Lam Yat Cheong	Chairman	Member	Member
Mr. Goh Jin Hian	Member	Member	Member
Mr. Liu Jun	Member	Member	Member

### Audit Committee

The Company has established an audit committee on 8 January 2007 with written terms of reference in compliance with the Listing Rules. The audit committee comprises the three Independent Non-executive Directors who together have substantial experience in the fields of accounting, business, corporate governance and regulatory affairs.

The audit committee is responsible for reviewing the accounting principles and practices adopted by the Company as well as substantial exceptional items, internal controls and financial reporting matters, which included a review on the audited annual results for the year ended 31 December 2006.

In addition, the audit committee also monitors the appointment of the Company's external auditor.

The audit committee shall meet at least twice a year after the Listing Date. The audit committee was established in January this year, no meeting has been held for 2006. The Company has scheduled the first audit committee meeting to be held on 19 April 2007.

### Remuneration Committee

The Company has established a remuneration committee on 8 January 2007 with written terms of reference in compliance with the Listing Rules. The remuneration committee comprises the three Independent Non-executive Directors and two Executive Directors.

The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management. In addition, it has responsibility for reviewing and making appropriate recommendations to the Board on the remuneration policy and structure of all the Directors and senior management.

The remuneration committee shall meet at least once a year after the Listing Date. The remuneration committee was established in January this year, no meeting has been held for 2006.

### Nomination Committee

The Company has established a nomination committee on 8 January 2007 with written terms of reference in compliance with the Listing Rules. The nomination committee comprises the three Independent Non-executive Directors and two Executive Directors.

The nomination committee is mainly responsible for making recommendations to the Board on appointment of Directors and management of Board succession. The responsibilities of the nomination committee are to determine the criteria for identifying candidates suitably qualified and reviewing nominations for the appointment of Directors to the Board.

Under the Articles of Association of the Company, at least one-third of the Directors shall retire by rotation at the annual general meeting and all newly appointed Directors will have to retire at the next annual general meeting. The retiring Directors are eligible to offer themselves for re-election.

The nomination committee shall meet at least once a year after the Listing Date. The nomination committee was established in January this year, no meeting has been held for 2006.

### Auditors' Remuneration

Deloitte Touche Tohmatsu is the auditors of the Company. Fees for auditing and non auditing services amounting to HK\$1,550,000 and HK\$500,000 respectively was disclosed in the Company's consolidated financial statements for the year ended 31 December 2006.

The Company also incurred approximately HK\$5,080,000 for the services provided by the reporting accountants in respect of the Global Offering of the Company's shares and its listing on the Stock Exchange and the amount has been charged to the share premium account. It was not practicable to separate the amount payable for those services between the year 2005 and 2006.

### Directors' and Auditors' Responsibilities for Accounts

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Board acknowledges their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The statement of the auditors of the Company on their reporting responsibilities on the financial statements of the Company is set out in the independent auditors' report on page 29.

### Internal Controls

The Directors have reviewed and are satisfied with the effectiveness of the Company's internal control system, including, in particular, financial, operational and compliance controls and risk management functions.

### Communications with Shareholders

The Company uses a number of formal communication channels to account to shareholders for the performance of the Company. These include the annual report and accounts, the interim report, periodic company announcements made through the Stock Exchange, as well as through the annual general meeting. The Company aims to provide its shareholders and potential investors with high standards of disclosure and financial transparency. In order to provide effective disclosure to investors and potential investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcements as required by the Listing Rules. The Company also welcomes comments and questions from shareholders at its annual general meeting.

First annual general meeting will be held on 22 June 2007.