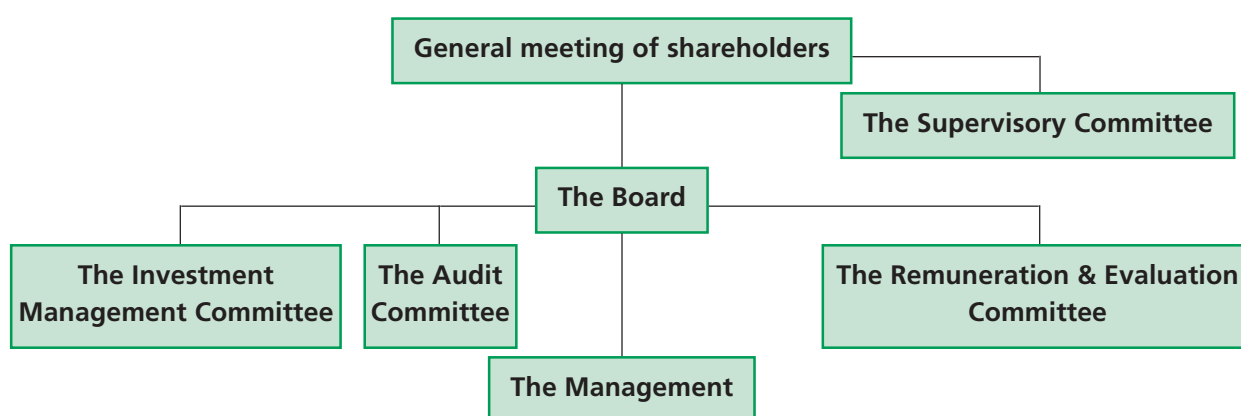


CORPORATE GOVERNANCE

During the Reporting Period, the Company has been operating in strict compliance with the PRC Company Law (the "Company Law"), the Securities Law, the listing rules of the stock exchanges both in Shanghai and Hong Kong and other requirements set out in the relevant rules and regulations issued by the CSRC devoting to improving its corporate governance structure and regulating its operation. The corporate governance structure of the Company has complied with the requirements provided in the Code on Corporate Governance Practices for Listed Companies issued by the CSRC. The Company also focused on enhancing the information disclosure of the Company and the management of the relationships with investors in its routine operation.

THE COMPANY'S CORPORATE CHART



BOARD OF DIRECTORS

The Board is the core of decision - making body in charge of the operation and management of the Company's assets. The Board is accountable to the Shareholders.

The present Board is the third session since the establishment of the Company. It consists of 7 members, of which there are 4 Executive Directors and 3 Independent Non-executive Directors. Each Director has a term of office commencing from 26 March 2004 or the date of being elected to the date of election of a new session of the Board.

Directors shall be elected or removed by general meeting of shareholders, at which a cumulative voting system is adopted for the election of directors. Directors are eligible for re-election upon expiration of their term of office. All Independent Non-executive Directors are independent persons, and are not connected with the Company and its substantial shareholders. Their consecutive terms shall not be more than six years.

The role of Chairman and General Manager of the Company are performed by separate persons with clear division of responsibilities. The Board is presided over by the Chairman, who is in charge of the routines of the Board and the examination of the carrying out of the resolutions passed at Board meetings. General Manager works under the leadership of the record. The principal responsibilities of the General Manager include the management of the Company's daily operations and implementation of the resolutions passed at the Board.

Corporate Governance

Members of the Board have different industry backgrounds, having expertise and substantial experience in areas of business management, accounting, finance, pharmaceuticals and investment planning.

Currently, the Company has 3 Independent Non-executive Directors, representing more than 1/3 of the total members of the Board. All the Independent Non-executive Directors of the Company are familiar with the rights and obligations of directors and independent non-executive directors of listed companies. During the Reporting Period, the Independent Non-executive Directors attended Board meetings and general meetings of shareholders in a careful, responsible and active manner. They have done a lot of work on improving the Company's corporate governance and material decision-making, and have expressed impartial and objective opinions on relevant matters, thus effectively safeguarding the interests of the shareholders. All of the 3 Independent Non-executive Directors of the Company are members of the special committees formed under the Board.

In the year of 2004, twelve Board meetings have been convened, at which the investment projects, connected transactions and financial matters of the Group were discussed. Effective discussions and prudent decisions were made at such meetings. During the Reporting Period, the Independent Non-executive Directors of the Company expressed no dissenting views to the Board resolutions and matters other than Board resolutions of the Company for the Year. All the Directors of the Company can obtain from the Company Secretary timely statutory and regulatory regulations that directors of listed companies must be abided by and other relevant information and updates related to continuing obligations to ensure that the Directors understand their duties and that the procedures of Board meeting be implemented and complied with appropriately. The Directors and the special committees of the Board are both entitled within the scope of their powers to engage the services of independent professional institutions for performing their duties or when need arising business. The Company shall bear the reasonable cost incurred thereof.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed receipt from each of the Independent Non-executive Directors a confirmation letter in regards to his independence pursuant to Rule 3.13 of the Listing Rules of HKEX. The Board considers the existing Independent Non-executive Directors to be independent persons and are in compliance with the relevant provisions of Rule 3.13 of the Listing Rules of HKEX.

During the Reporting Period, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the Directors, Supervisors and Senior Management of the Company, the Company's controlling shareholders or their respective connected persons.

SPECIAL COMMITTEES OF THE BOARD

1. Audit Committee

In August 1999, the Company established the Audit Committee. Its principal responsibilities include: review and monitor the quality, quantity and procedure of the Group's financial reporting; review the completeness and effectiveness of the Company's internal control system; consider the appointment of independent auditors and co-ordinate and review the efficiency and quality of their work.

The Audit Committee now comprises Mr. Wong Hin Wing (Head of the Committee), Mr. Wu Zhang and Mr. Zhang Heyong. All three of them are Independent Non-executive Directors of the Company and is in compliance with the relevant requirements. The term of office of the members of the Audit Committee commences from the date of their appointment to the date of election of the new session of the Board. In 2004, the Audit Committee has convened two meetings, which were chaired by Mr. Wong Hin Wing, Head of the Committee. In order to enhance the reporting independence of our external auditors, the Audit Committee and the external auditors attended only part of such meetings. All the resolutions passed at the Audit Committee meetings were recorded and filed in accordance with the relevant rules.

The followings are the major work completed by the Audit Committee during the Year:

- Review the annual, interim and quarterly business and financial reports of the Company, and management proposals issued by the external auditors and the reply from our management thereto;
- Review matters related to the accounting policies and accounting practices adopted by the Group;
- Assist the Board to make independent evaluation of the effectiveness of the financial reporting procedure and the internal control system of the Group; and
- Give advice on the material matters of the Company or remind management of relevant risks.

2. Investment Management Committee

In February 2001, the Company established the Investment Management Committee. Its principal responsibilities are to examine and review the strategic development of the Company, formulate strategic plans and control significant capital operations, assets operations and the execution of the investment items.

The Investment Management Committee now comprises Mr. Yang Rongming (Head of the Committee), Mr. Zhou Yuejin, Mr. He Shuhua and Mr. Feng Zansheng, all of whom are Executive Directors. The term of office of the members of the Investment Management Committee commences from the date of their respective appointments to the date of election of the new session of the Board. During the Year, the Investment Management Committee has convened seven meetings, at which the investment projects and investment proposals were considered.

Corporate Governance

3. Remuneration & Evaluation Committee

In February 2002, the Company established the Remuneration & Evaluation Committee. Its principal responsibilities are to consider or formulate the remuneration policies and incentive mechanism and their implementation, and to give proposals on the performance assessment, appointment and removal and nominations of Directors and Senior Management.

The Remuneration & Evaluation Committee now comprises of two Executive Directors, Mr. Yang Rongming and Mr. Zhou Yuejin, and three Independent Non-executive Directors, Mr. Wu Zhang (Head of the Committee), Mr. Wong Hin Wing and Mr. Zhang Heyong. The term of office of the above members commences from the date of their respective appointments to the date of election of the new session of the Board. During the Year, the Remuneration & Evaluation Committee has convened one meeting, at which the Company's long-term incentive and reward implementation scheme for the year 2003 was discussed and passed.

PERFORMANCE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS

During the Reporting Period, the Independent Non-executive Directors of the Company worked diligently, attended meetings of the Board punctually, expressed their independent views on the connected transactions made during the Reporting Period and discharged their duties as Independent Non-executive Directors seriously.

ATTENDANCE OF BOARD MEETINGS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

Name	Meetings supposed to attend	Meetings attended in person (times)	Meetings attended by proxy (times)	Absence (times)	Remarks
Chu Youlin, David	3	3	/	/	
Liu Jinxiang	3	2	1	/	Appointed Mr. Zhang Bohua to attend and vote on his behalf
Zhang Bohua	3	3	/	/	
Huang Buren	3	3	/	/	
Wu Zhang	12	12	/	/	
Wong Hin Wing	9	8	1	/	Appointed Mr. Wu Zhang to attend and vote on his behalf
Zhang Heyong	9	9	/	/	

SUPERVISORY COMMITTEE

The Supervisory Committee in accordance with the law executed their supervision power to safeguard the lawful interests of the shareholders, the Company and employees. The number and composition of the Supervisory Committee of the Company comply with the relevant laws and regulations. During the Year, five meetings were held by the Supervisory Committee. All the members of the Supervisory Committee attended all the meetings to monitor the Company's financial condition and the legitimacy of performance of the Company's Directors and Senior Management on behalf of the shareholders. They also attended all the meetings of the Board and discharged their duties seriously.

SHAREHOLDERS, INVESTOR RELATIONS AND OTHER INTERESTED PARTIES

The Company is endeavored to ensure equality among all shareholders, especially the medium and minority shareholders so that they can fully exercise their rights.

1. General meeting of shareholders

The general meeting of shareholders is the highest authority of the Company and exercises its power in accordance with the laws. It decides the important matters of the Company. The annual general meeting of shareholders and extraordinary general meetings of shareholders provide a direct channel for the Board to communicate directly with the shareholders. For this reason, the Company places great emphasis on these meetings. Notice convening the meeting is given 45 days prior to the meeting and all the Directors and members of Senior Management are required to be present at the meeting to the best of their availabilities. The Company encourages all shareholders to attend the meetings and welcome shareholders to speak at the meetings.

2. Substantial shareholders

GPHL (holding 60.55% equity), as the Company's controlling shareholder, has not acted beyond the shareholders' meetings to interfere directly or indirectly in the Company's decision-makings or operations. The Company and its substantial shareholders have been working separately in respect of human resources, assets, finance, organization and business.

3. Information disclosure and management of relationship with investors

The Company delegated the Company Secretary with the responsibility for the Company's information disclosure, handling company visits and enquiries from shareholders and investors, responding to correspondence from shareholders in a timely manner. The Company designated Shanghai Securities in the Mainland and Hong Kong Economic Times and The Standard in Hong Kong to publish the Company's information. The Company continued to disclose information in a truthful, accurate, comprehensive and timely manner in strict compliance with the relevant rules and regulations and the Code of Information Disclosure formulated by the Company. The Company also ensures that all shareholders have fair access to information relating to the Company.

4. Other interested parties

The Company respected and safeguarded the interests of the interested parties and realized the balance of interests among the shareholders, employees and the society so as to mutually promote the sustainable and sound development of the Company.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S PERFORMANCE ASSESSMENT, INCENTIVE MECHANISM AND RELEVANT REWARD SYSTEM

A Remuneration & Evaluation Committee has been established under the Board and is responsible for examining and reviewing the remuneration policies and performance appraisal standards and schemes for the Directors, Supervisors and Senior Management. A long-term incentive scheme had been considered and approved at the first Extraordinary General Meeting of the Company in 2002, and became effective in 2001. The scheme is available for the Directors (excluding Independent Directors), the Supervisors (excluding external Supervisors), Senior Management, middle Management and key technical staff. The incentive scheme aims to link the responsibilities, risk exposure and performance of the Senior Management and key personnel with the long-term development of the Company so as to maintain the continuous growth of its operation results.

Separation of Business, Human Resources, Assets, Organisation and Financial Arrangement from the Controlling Shareholder

1. Separation of business

The Group operates with an extensive business scope that is independent from the controlling shareholder.

2. Human resources

The Company maintains independency in areas of staffing, personnel and payroll management. The General Manager, Deputy General Manager, Company Secretary, Financial Controller, and other senior executives of the Company are remunerated by the Company.

3. Assets

The Company is equipped with an independent production system, a supplementary production system and related facilities. It also has its own independent purchases and sales systems. There are currently 36 trademarks used by the Company, the titles of which are vested with GPLH, the controlling shareholder of the Company. The Company has entered into an agreement with GPLH in relation to the use of trademarks. In addition, the Company owns 4 trademarks, the registrations of which are still valid.

4. Organization

The Company has its own independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments are operating independently and autonomously. Further, they possess independent decision-making mechanisms and complete production unit. There does not exist any supervisory or reporting relationships with the functional departments of the controlling shareholder of the Company.

5. Finance

The Company has established an independent finance department, has set up an independent accounting system and has formulated an independent financial management policy. The Company has maintained separate bank accounts and paid tax independently.