

# Corporate Governance

## 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 and is devoting to improving its corporate governance structure and regulating its operation. In accordance with the spirit of the Notice on Urging Listed Companies to Amend the Articles of Association (Zheng Jian Gong Si Zi [2005] No.15), the Company amended the Articles of Association, the Rules and Procedures for Shareholders' General Meetings and the Rules and Procedures for Board Meetings under the Code of Corporate Governance for Listed Companies, Regulations on Reinforcement of Protection of Interests of Public Shareholders, the amended listing rules of the stock exchanges both in Shanghai and Hong Kong and other relevant laws and regulations, combined with the actual conditions of the Company in order to further regulate its operations, improve its modern corporate system and protect the interest of the shareholders.

As required by the CSRC Notice Regarding Opinions on Improving Quality of Listed Companies approved and forwarded by State Council (Yue Fu [2005] No.127) transmitted by Guangdong Provincial Government, the Company made the investigation on itself and set up relevant measures, reporting the investigation to SASAC of Guangzhou in compliance with the spirits of the new and revised Company Law, the Securities Law and CSRC Notice Regarding Opinions on Improving Quality of Listed Companies approved and forwarded by State Council.

### 1. Shareholders and general meeting of shareholders

The Company is endeavored to ensuring equality among all shareholders, especially the shareholders so that they can fully exercise their rights and undertake their liabilities, and to ensure that the shareholders are informed and can participate in the important matters of the Company specified in laws, administrative regulations and the Articles of Association, and to establish an effective channel for the Company to communicate with the 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 AGM of shareholders or extraordinary general meetings ("EGM") of shareholders provide a direct channel for the Board to communicate directly with the shareholders. The general meeting of shareholders is convened and held in strict compliance with the Standard Opinions on Shareholders' General Meetings issued by the CSRC and the Rules and Procedures for Shareholders' General Meetings made by the Company. The Company complies strictly with the relevant requirements of voting matters and voting procedures so as to safeguard the legal interests of the Company and its shareholders. The auditors and lawyers will present the meeting as witnesses. The Company encourages all shareholders to attend the meetings and welcome shareholders to speak at the meetings.

### 2. Relationship between the controlling shareholder and the Company

GPLH, holding 60.55% equity of the Company, as the controlling shareholder, exercises its power and accepts its liabilities in accordance with the laws, and has not acted beyond the shareholders' meetings to interfere directly or indirectly in the Company's operations. The Company and its controlling shareholder have been working separately in areas of assets, business, organization, finance and human resources and are independent of each other. The Board, the Supervisory Committee and the internal organizations of the Company can operate independently.

# Corporate Governance

## CORPORATE GOVERNANCE *(continued)*

### 3. Directors and Board of directors

The Board is the core 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 their respective appointments 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 terms of office shall not exceed six years consecutively.

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 Board. The principal responsibilities of the General Manager include management of the Company's daily operations and implementation of the resolutions passed at the Board.

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.

During the Year of 2005, seven 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 arise business. The Company shall bear the reasonable cost incurred thereof.

# Corporate Governance

## CORPORATE GOVERNANCE *(continued)*

### 3. Directors and Board of directors *(continued)*

#### Independence of the Independent Non-executive Directors

The Board confirmed that it has received 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 the 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 the 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 shareholder or its 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. During the Year, the Audit Committee has convened three meetings, which were chaired by Mr. Wong Hin Wing. All of the committee members have attended each meeting.

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 results announcements 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.

# Corporate Governance

## CORPORATE GOVERNANCE (continued)

### 3. Directors and Board of directors (continued)

#### Special Committees of the Board (continued)

##### (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. Xie Bin 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 one meeting, at which the investment projects and investment proposals were considered. All of the committee members have attended each meeting.

##### (3) Remuneration and Evaluation Committee

In February 2002, the Company established the Remuneration and 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 and 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.

#### 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.

##### (1) 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
Wu Zhang	7	7	/	/	/
Wong Hin Wing	7	7	/	/	/
Zhang Heyong	7	7	/	/	/

##### (2) Dissenting views expressed by Independent Non-executive Directors to matters related to the Company

During the Reporting Period, the Independent Non-executive Directors of the Company expressed no dissenting views to the Board resolutions and other matters other than Board resolutions of the Company for the Year.

# Corporate Governance

## CORPORATE GOVERNANCE *(continued)*

### 4. 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, three meetings were held by the Supervisory Committee. All members of the Supervisory Committee attended all the meetings to monitor the Company' 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.

### 5. 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.

### 6. 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.

## SEPARATION OF BUSINESS, HUMAN RESOURCES, ASSETS, ORGANIZATION AND FINANCIAL ARRANGEMENT FROM THE CONTROLLING SHAREHOLDER

1. Separation of business: the Company operates with an extensive business scope that is independent from its 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 Group 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 Group, the titles of which are vested with GPL, the controlling shareholder of the Company. The Company has entered into an agreement with GPL 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.