

# Corporate Governance

## I. 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 Shanghai Stock Exchange and HKEx 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. 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, based on its actual conditions, amended such documents as the Articles of Association, Rules and Procedures for Shareholders' General Meetings and Rules and Procedures for Board Meetings with reference to the Code of Corporate Governance for Listed Companies, Regulations on Reinforcement of Protection of Interests of Public Shareholders, the revised listing rules of the Shanghai Stock Exchange and HKEx and other relevant laws and regulations, so as to regulate its operations, improve our current corporate system and protect the interest of the medium and minority shareholders.

### 1. Shareholders and general meeting of shareholders

The Company is endeavored to ensuring equality among all shareholders, especially the minority shareholders so that they can fully exercise their rights and undertake their obligations accordingly, and to ensure that the shareholders will be informed and are able to participate in the important matters of the Company specified in laws, administrative regulations and the Articles of Association, establishing an effective channel for the Company to communicate with the shareholders.

The general meeting of shareholders is the highest authority of the Company and it exercises its power in accordance with the laws. It decides the important matters of the Company. The annual general meeting of shareholders or the extraordinary general meetings of shareholders provide a channel for the management 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 CSRC and Rules and Procedures for Shareholders' General Meetings of the Company. The Company complies strictly with the relevant requirements in respect of voting matters and voting procedures so as to safeguard the legal interests of the Company and its shareholders. The accountant and the lawyer will present at the meeting as witnesses. The Company encourages all shareholders to attend the meetings and welcome shareholders to express their opinions at the meetings.

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

GPHL, as the controlling shareholder of the Company, exercises its power and accepts its obligations 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 GPHL have been working separately in respect 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.

### 3. Board of Directors

#### (1) Composition

The Board is the core decision-making body entrusted by general meeting of the shareholders to be 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.



## I. CORPORATE GOVERNANCE *(continued)*

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

#### (1) Composition *(continued)*

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.

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. The 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 extensive experience in areas of business management, accounting, finance, pharmaceuticals and investment planning.

#### (2) Board Meetings

During the year, ten Board meetings were held, 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. All the Directors of the Company can obtain from the Company Secretary and the Secretariat to the Board of the Company timely relevant information and updates of the statutory and regulatory regulations that directors of listed companies must be abided by and that are related to their continuing obligations to ensure that the Directors understand their duties and that the procedures of Board meetings are 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 for the business operation when needed. The Company shall bear the reasonable cost incurred thereof.

The attendance of Directors at Board meetings during the Reporting Period is set out below:

Directors	Required Meetings Attendance	Meetings attended in person <i>(frequencies)</i>	Meetings attended by proxy <i>(frequencies)</i>	Absence <i>(frequencies)</i>	Remarks
Mr. Yang Rongming	10	9	1	/	Appointed Mr. Chen Zhinong to attend and vote on his behalf
Mr. Chen Zhinong (appointed on 15 June 2006)	6	4	2	/	Appointed Mr. Yang Rongming to attend and vote on his behalf
Mr. Feng Zansheng	10	10	/	/	—
Mr. Wu Zhang	10	10	/	/	—
Mr. Wong Hin Wing	10	10	/	/	—
Mr. Zhang Heyong	10	10	/	/	—
Mr. Zhou Yuejin (resigned on 27 April 2006)	3	3	/	/	—
Mr. Xie Bin (resigned on 15 June 2006)	4	4	/	/	—



# Corporate Governance

## I. CORPORATE GOVERNANCE *(continued)*

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

#### (3) The Independent Non-executive Directors

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 had done a lot of work on improving the Company's corporate governance and material decision-making, and had 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 were members of the special committees formed under the Board.

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

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.

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 considered the existing Independent Non-executive Directors to be independent persons as defined in Rule 3.13 of the Listing Rules of HKEx.

#### (4) Loan or guarantee for loan granted to the Directors

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 their respective connected persons.

### 4. Committees of the Board

#### (1) Audit Committee

In August 1999, the Company established an Audit Committee. Its principal responsibilities include: to review and monitor the quality, quantity and procedure of the Group's financial reporting; to review the completeness and effectiveness of the Company's internal control system; to consider the appointment of independent auditors and co-ordinate and to 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 are qualified under relevant requirements. The term of office of the members of the Audit Committee commences from their appointments on 26 March, 2004 to the date of election of the new session of the Board. In 2006, the Audit Committee had held two 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 requirements.



## I. CORPORATE GOVERNANCE *(continued)*

### 4. Committees of the Board *(continued)*

#### (1) Audit Committee *(continued)*

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

- Review the annual, interim and quarterly results 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; 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 an Investment Management Committee. Its principal responsibilities are to examine and review the strategic development of the Company, to formulate strategic plans and to control significant capital operations, assets operations and the implementation of investment projects.

The Investment Management Committee now comprises Mr. Yang Rongming (Head of the Committee) and Mr. Feng Zansheng. All of whom are Executive Directors. Mr. Zhou Yuejin and Mr. Xie Bin, the former members of the committee, resigned on 27 April, 2006 and 15 June, 2006 respectively. 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 Reporting Period, the Investment Management Committee held three meetings, at which the investment projects and investment proposals were considered. All of the committee members had attended each meeting.

#### (3) Remuneration & Evaluation Committee

In February 2002, the Company established a 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 Mr. Yang Rongming, an Executive Director, 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 aforementioned committee members commences from the date of their respective appointments to the date of election of the new session of the Board.

### 5. The Supervisory Committee

The Supervisory Committee exercised their supervision power legally 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 Reporting Period, three meetings were held by the Supervisory Committee. All members of the Supervisory Committee attended all the meetings to monitor the Company's financial conditions 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.



# Corporate Governance

## I. CORPORATE GOVERNANCE *(continued)*

### 6. 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.

### 7. 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. It designated Shanghai Securities in the Mainland and Hong Kong Economic Times and The Standard in Hong Kong to publish the Company's information. It 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.

## II. 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 units. 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.



## III. INTERNAL CONTROLS

The Board is responsible for establishing and maintaining the Company's internal control system, reviewing the effectiveness of all important monitoring procedures relating to finance, operation, compliance and risk management, and the protection of shareholders' interests and the Group's assets. The Board authorizes the Company's management to promote the establishment of internal control system, and the Audit Committee to review effectiveness of such system.

Since the establishment of the Company in 1997, it has been committed to establish and improve its corporate governance, has have set up a comprehensive corporate governance structure and established gradually a series of rules for corporate governance and internal control. Besides, the Company has also built in an operation management system covering aspects like production management, sourcing management, sales and marketing, financial management, investment, R & D, human resources, information system management. For its implementation, specific relevant management requirements are developed.

The Board considers that the Company has built in various internal control systems to mitigate risks. Those systems have been improving to suit the needs during the Company's continuous development process and they cover each level of the Company's structure and every aspect of the Company's business activities and internal management. They are effectively implemented. In short, they are effective as a whole without any significant defect.

However, to fully review the effectiveness of the Company's internal control system and its further fine-tuning, the Company has taken or will take the following actions:

- (1) set up an audit department on 26 October 2006 as the Company's internal auditing department and internal body for monitoring, inspection and supervision;
- (2) named the year 2007 as the "Fundamental Management Year", transferred some of the core staff to establish a committee for fundamental management, actively promote the idea to the subsidiaries, engage professionals to play a part in the activities of the "Fundamental Management Year";
- (3) will amend our "Internal Control System Handbook" specifically prepared for the Company according to the "Corporate Internal Control System-fundamental Rules" of the Ministry of Finance and 26 specific rules, endeavour to perfect the Company's internal control system, evaluate the effectiveness of such system and strengthen the implementation of the internal control system and prevent any corporate risk arising.

