

Corporate Governance Report

The Company strives to attain and maintain the highest standards of corporate governance as it believes that effective corporate governance practices are fundamental to enhancing shareholder value and safe-guarding shareholder interests. The Company has accordingly adopted sound corporate governance principles that emphasise a quality board of Directors (the "Board"), effective internal control, stringent disclosure practices and transparency and accountability to all stakeholders. It is, in addition, committed to continuously improving these practices and inculcating an ethical corporate culture. The Company has applied the principles of the Combined Code on Corporate Governance (the "Code") notwithstanding that the Company's shares are admitted to trade on the Alternative Investment Market ("AIM") and it is therefore not required to comply with the Code.

Set out below are the corporate governance practices adopted by the Company.

THE BOARD

The Board is responsible for directing the strategic objectives of the Company and overseeing the management of the business. Directors are charged with the task of promoting the success of the Company and making decisions in the best interest of the Company. The Board is satisfied that it meets the Code's requirement for effective operation.

The Board, led by the Chairman, Mr Simon To, approves and monitors the Group's long term objectives and commercial strategies, annual operating and capital expenditure budgets and business plans, evaluating the performance of the Company and supervising the management of the Company (the "Management"). Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

As at 31 December 2007, the Board comprised eight Directors, including an Executive Chairman, Chief Executive Officer, one Executive Director, two Non-executive Directors and three Independent Non-executive Directors (one of whom is Senior Independent Director). Biographical details of the Directors are set out on pages 30 to 32.

For a Director to be considered independent, the Board must be satisfied that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the Code.

The roles of the Chairman are separate from that of the Chief Executive Officer. Such division of responsibilities helps to reinforce their independence and accountability.

The Chairman is responsible for the effective conduct of the Board, ensuring that it as a whole plays an effective role in the development and determination of the Group's strategy and overall commercial objectives and acts as the guardian of the Board's decision-making processes. The Chairman is responsible for setting the agenda for each Board meeting, taking into account, where appropriate, matters proposed by Directors for inclusion in the agenda. He also ensures that the Board receives accurate, timely and clear information on the Group's performance, the issues, challenges and opportunities facing the Group and matters reserved to it for decision. With the support of Executive Directors and the Company Secretary, the Chairman ensures that the Board complies with approved procedures, including the schedule of Reserved Matters to the Board for its decision and Terms of Reference of all Board Committees. The Board, under the leadership of the Chairman, has adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders.

The Chief Executive Officer, Mr Christian Hogg, is responsible for managing the businesses of the Group, formulating and developing the Group's strategy and overall commercial objectives in close consultation with the Chairman and the Board. With the executive team, the Chief Executive Officer implements the decisions of the Board and its Committees. He maintains a dialogue with the Chairman to keep him fully informed of all major business development and issues. He is also responsible for ensuring that the development needs of senior management reporting to him are identified and met as well as leading the communication programme with shareholders.

The Board meets regularly. Between scheduled meetings, senior management of the Group provides information regularly to Directors on the activities and development of the Group. Throughout the year, Directors participate in the consideration and approval of routine and operational matters of the Company by way of circular resolutions with supporting explanatory materials, supplemented by additional verbal and/or written information or notification from the Company Secretary and other executives as and when required. Additional Board meetings are held whenever required. In addition, Directors have full access to information on the Group and independent professional advice at all times whenever deemed necessary by the Directors.

With respect to regular meetings of the Board, Directors receive written notice of the meetings at least 14 days in advance and an agenda with supporting Board papers no less than 3 days prior to the meetings. With respect to other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances.

The Board held six meetings in 2007 with 98% attendance.

Position	Name of Directors	Attended / Eligible to attend
Chairman	Simon To	6/6
Executive Directors:	Christian Hogg (<i>Chief Executive Officer</i>)	6/6
	Patrick Wan	6/6
Non-executive Directors:	Christian Salbaing	5/6
	Edith Shih	6/6
	Stephen Yeung ⁽¹⁾	2/2
Independent Non-executive Directors:	Michael Howell	6/6
	Christopher Huang	6/6
	Christopher Nash	6/6

Note:

(1) Resigned as Non-executive Director on 1 April 2007.

During the year, the Chairman held two meetings with Non-executive Directors without Executive Directors with full attendance to review the performance of the Executive Directors. The Senior Independent Director, Mr Christopher Nash, also held a meeting with Non-executive Directors without the presence of the Chairman with full attendance for the appraisal of the Chairman's performance.

In addition, an evaluation of the performance of the Board and its Committees was conducted by questionnaire. The objectives of such evaluation were to ensure that the Board, its Committees and each individual Director continued to act effectively and to fulfill the duties and responsibilities expected of them and to identify any additional training requirements.

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All Non-executive Directors are engaged on service contracts for an initial fixed term up to 31 December 2006 which contracts are automatically renewed for successive 12 month periods unless terminated by written notice given by either party. The Chairman of the Board is of the view that the performance of each of the Non-executive Directors continues to be effective and they all demonstrate commitment to their role as a Non-executive Director. All Directors are subject to re-election by shareholders at the annual general meeting following their appointment and at least every three years on a rotational basis. Save as mentioned herein, there are no existing or proposed service contracts between any of the Directors and the Company which cannot be terminated by the Company within 12 months without payment of compensation. Where vacancies arise at the Board, candidates are proposed and put forward to the Board for consideration and approval, with the objective of appointing to the Board individuals with expertise in the businesses of the Group and leadership qualities so as to complement the capabilities of the existing Directors thereby enabling the Company to retain as well as improve its competitive position.

Upon appointment to the Board, each Director is provided with a comprehensive induction to the Group's businesses by senior executives. Continuing education and information are provided to Directors regularly to help ensure that Directors are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its businesses.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following statement, which sets out the responsibility of Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's Report on page 46 which acknowledges the reporting responsibility of the Group's Auditor.

Annual Report and Financial Statements

The Directors are responsible for the preparation of the Annual Report and Financial Statements of the Company to ensure that these financial statements give a fair presentation in accordance with Cayman Islands Companies Law and the applicable accounting standards.

Accounting Policies

The Directors consider that in preparing the financial statements, the Group applies appropriate accounting policies that are consistently adopted and makes judgements and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose the financial position of the Group upon which financial statements of the Group could be prepared in accordance with the Group's accounting policies.

Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities within the Group.

Going Concern

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

COMPANY SECRETARY

The Company Secretary, Ms Edith Shih, is responsible to the Board for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through the adherence to proper Board processes and the timely preparation and dissemination to Directors and Board Committees comprehensive agendas and papers.

The Company Secretary is responsible for ensuring that the Board is fully apprised of the relevant legislative, regulatory and corporate governance developments relating to the Group and that it takes these into consideration when making decisions for the Group. The Company Secretary is also directly responsible for the Group's compliance with all obligations of the AIM Rules for Companies ("AIM Rules"), including publication and dissemination of annual reports and interim reports within the periods laid down in the AIM Rules, timely dissemination to the shareholders and the market of announcements and information relating to the Group and assisting in the notification of Directors' dealings in securities of the Group.

The Company Secretary advises the Directors on their obligations for disclosure of interests in securities, related party transactions and price-sensitive information and ensures that the standards and disclosures required by the AIM Rules are observed and, where required, reflected in the Report of the Directors in the Annual Report.

In relation to related party transactions, regular seminars are conducted for legal counsels and executives from business units within the Group to ensure that such transactions are handled in compliance with the AIM Rules. Detailed analyses are performed on all potential related party transactions to ensure full compliance and for Directors' consideration.

BOARD COMMITTEES

The Company has established an Audit Committee, a Remuneration Committee, a Technical Committee and a Complaints Committee.

Audit Committee

The Audit Committee comprises three Independent Non-executive Directors with recent and relevant financial experience. It is chaired by Mr Michael Howell with Professor Christopher Huang and Mr Christopher Nash as members. None of the Committee Members is related to the Company's external auditors.

Under the terms of reference of the Audit Committee, it is required to review the Group's preliminary results, interim results and annual financial statements, oversee the relationship between the Company and its external auditors, monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management systems giving due consideration to laws and regulations and the provisions of the Code. The Committee is authorised to obtain, at the Company's expense, outside legal or other professional advices on any matters within its terms of reference.

The terms of reference of the Audit Committee adopted by the Board are published on the Company's website.

The Audit Committee held three meetings in 2007 with 100% attendance.

Name of Members	Attended / Eligible to attend
Michael Howell (<i>Chairman</i>)	3/3
Christopher Huang	3/3
Christopher Nash	3/3

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Financial Statements

The Audit Committee meets with the senior management of the Company from time to time to review the interim and final results and the Interim Report and Annual Report of the Company. It considers and discusses the reports and presentations of Management and the Group's internal and external auditors, with a view of ensuring that the Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards. It also meets with the Group's principal external auditor, PricewaterhouseCoopers ("PwC"), to consider their reports on the scope and outcome of their independent review of the interim financial report and their annual audit of the consolidated financial statements.

External Auditors

The Audit Committee reviews and monitors the external auditors' independence, objectivity and effectiveness of the audit process and holds meetings with PwC to consider the scope of their audit, approve their fees, and the scope and appropriateness of non-audit services, if any, to be provided by them. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditors.

The Group's policy regarding the engagement of PwC for the various services listed below is as follows:

- Audit services - includes audit services provided in connection with the audit of the consolidated financial statements. All such services are to be provided by external auditors.
- Audit related services - includes services that would normally be provided by an external auditor but not generally included in the audit fees, for example, audits of the Group's pension plans, due diligence and accounting advice related to mergers and acquisitions, internal control reviews of systems and/or processes, and issuance of special audit reports for tax or other purposes. The external auditors are to be invited to undertake these services that they must or are best placed to undertake in their capacity as auditors.
- Taxation related services - includes all tax compliance and tax planning services, except for those services which are provided in connection with the audit. The Group uses the services of the external auditors where they are best suited. All other significant taxation related work is undertaken by other parties as appropriate.
- Other services - includes, for example, audits or reviews of third parties to assess compliance with contracts, risk management diagnostics and assessments, and non-financial systems consultations. The external auditors are also permitted to assist management and the Group's internal auditors with internal investigations and fact-finding into alleged improprieties. These services are subject to specific approval by the Audit Committee.
- General consulting services - the external auditors are not eligible to provide services involving general consulting work.

In the year ended 31 December 2007, the fees paid to PwC were for both audit and non-audit services. The non-audit services were mainly related to the tax compliance services which amounted to approximately USD6,000. It is considered that the non-audit service fees are immaterial and the services provided are in no way impede the independence of the auditor.

Review of Risk Management and Internal Control

The Audit Committee assists the Board in meeting its responsibility for maintaining an effective system of internal control. It reviews the process by which the Group evaluates its control environment and risk assessment process, and the way in which business and control risks are managed. It reviews with the internal auditors of the Group's holding company the work plan for their audits together with their resource requirements and considers the report of the Group's internal auditors to the Audit Committee on the effectiveness of internal controls in the Group business operations. In addition, it also receives the report from the Company Secretary on the Group's compliance status on regulatory requirements. These reviews and reports are taken into consideration by the Audit Committee when it makes its recommendation to the Board for approval of the consolidated financial statements for the year.

Remuneration Committee

The Remuneration Committee comprises three members, chaired by the Chairman Mr Simon To with Messrs Michael Howell and Christopher Nash, both Independent Non-executive Directors, as members who possess experience in human resources and personnel emoluments. Mr To, though he is an Executive Director, has experience in the traditional Chinese medicine industry as well as expertise in human resources and personnel in China. The Remuneration Committee meets towards the end of each year for the determination of the remuneration package of Executive Directors and senior management of the Group and during the year to consider share options grant and other remuneration related matters.

The responsibility of the Remuneration Committee is to assist the Board in achieving its objective of attracting, retaining and motivating people of the highest calibre and experience needed to shape and execute strategy across the Group's substantial and diverse international business operations. It assists the Group in the administration of a fair and transparent procedure for setting remuneration policies including assessing the performance of Executive Directors and senior executives of the Group and determining their remuneration packages.

The terms of reference of the Remuneration Committee adopted by the Board are published on the Company's website.

The remuneration of Mr Christian Hogg, the Executive Director, and senior executives is determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and prevailing market conditions. They also participate in bonus arrangements determined in accordance with the performance of the Group and the individual's performance. Messrs Simon To and Patrick Wan, both Executive Directors, do not receive performance related remuneration from the Company and are remunerated through their respective service agreements. All Non-executive Directors have entered into service agreements with the Company and are remunerated with fixed fees as determined by the Board.

The Remuneration Committee held three meetings in 2007 with 100% attendance.

Name of Members	Attended / Eligible to attend
Simon To (Chairman)	3/3
Michael Howell	3/3
Christopher Nash	3/3

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The Directors received the following remuneration from the Company during the year:

Name of Directors	Salary and fees US\$	Bonus US\$	Taxable benefits US\$	Pension contributions US\$	Share option benefits ⁽⁶⁾ US\$	Total US\$
<i>Executive Directors:</i>						
Simon To ⁽¹⁾	24,856	-	-	-	-	24,856
Christian Hogg ⁽²⁾	305,663	230,769	6,335	19,267	949,723	1,511,757
Patrick Wan ⁽¹⁾	24,856	-	-	-	-	24,856
<i>Non-executive Directors:</i>						
Christian Salbaing ⁽³⁾	24,856	-	-	-	-	24,856
Edith Shih ⁽⁴⁾	24,856	-	-	-	-	24,856
Stephen Yeung ⁽¹⁾⁽⁵⁾	6,214	-	-	-	-	6,214
<i>Independent Non-executive Directors:</i>						
Michael Howell	59,654	-	-	-	-	59,654
Christopher Huang	59,654	-	-	-	-	59,654
Christopher Nash	59,654	-	-	-	-	59,654
Aggregate emoluments	590,263	230,769	6,335	19,267	949,723	1,796,357

Notes:

- (1) Such Director's fees were paid to Hutchison Whampoa (China) Limited.
- (2) Emoluments paid include Director's fees of US\$24,856.
- (3) Such Director's fees were paid to Hutchison Whampoa (Europe) Limited.
- (4) Such Director's fees were paid to Hutchison Whampoa Limited.
- (5) Such Director's fees were paid up to 31 March 2007 as he resigned as Non-executive Director on 1 April 2007.
- (6) Share option benefits represent the fair value of share options granted under the Company's share option scheme, which is calculated in accordance with the methodology disclosed in note 2 (r) (ii) to the financial statements. This methodology does not take into account of the actual share price at the date of exercise and whether the share options have been exercised. The significant inputs to the valuation model are disclosed in note 24(b) to the financial statements and details of the share options granted are set out on pages 34 and 80 of this Annual Report.

Technical Committee

The Technical Committee comprises three members, chaired by Professor Christopher Huang with Messrs Simon To and Christian Hogg, both Executive Directors, as members. The Technical Committee members consider from time to time matters relating to the technical aspects of research and development. It also invites such executives as it thinks fit to attend meetings and when required.

The terms of reference of the Technical Committee adopted by the Board are published on the Company's website.

The Technical Committee held one meeting in 2007 with 100% attendance.

Name of Members	Attended / Eligible to attend
Christopher Huang (<i>Chairman</i>)	1/1
Simon To	1/1
Christian Hogg	1/1

Complaints Committee

The Complaints Committee comprises Messrs Simon To, Christian Hogg, Michael Howell and Edith Shih as members. The Complaints Committee was established mainly for processing complaints and concerns raised by employees of the Group regarding the business and operations of the Group through the dedicated phone line and website. The members also monitor the investigative actions taken by the Company and the outcome of investigations.

INTERNAL CONTROL AND GROUP RISK MANAGEMENT

Introduction

The Board has overall responsibility for the Group's system of internal control and assessment and management of risks.

In meeting its responsibility, the Board seeks to increase risk awareness across the Group's business operations and has put in place policies and procedures, including parameters of delegated authority, which provide a framework for the identification and management of risks. It also reviews and monitors the effectiveness of the systems of internal control to ensure that the policies and procedures in place are adequate. Reporting and review activities include the review by Executive Directors and the Board and approval of detailed operational and financial reports, budgets and plans provided by the management of the business operations, review by the Board of actual results against the budgets, reviews by the Audit Committee of the ongoing work of the Internal Audit and Risk Management Departments of the Group's holding company, as well as regular business reviews by Executive Directors and the executive management team of each core business division.

Whilst these procedures are designed to identify and manage risks that could adversely impact the achievement of the Group's business objectives, they do not provide absolute assurance against material mis-statement, errors, losses or fraud.

Internal Control Environment

The Board is overall responsible for monitoring the operations of the businesses within the Group. Executive Directors are appointed to the boards of all material operating subsidiaries and associates for monitoring those companies, including attendance at board meetings, review and approval of business strategies, budgets and plans, and setting of key business performance targets. The executive management team of each core business division is accountable for the conduct and performance of each business in the division within the agreed strategies and similarly the management of each business is accountable for its conduct and performance.

The Group's internal control procedures include a comprehensive system for reporting information to the executive management teams of each core business and the Executive Directors.

Business plans and budgets are prepared annually by the management of individual businesses and subject to review and approval by both the executive management teams and the Executive Directors as part of the Group's five-year corporate planning cycle. Reforecasts for the current year are prepared on a quarterly basis, reviewed for differences to the budget and for approval. When setting budgets and reforecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks.

The Executive Directors review monthly management reports on the financial results and key operating statistics of each business and discuss with the executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant business risk sensitivities and strategies. In addition, financial controllers of the executive management teams of each of the major business discuss with the representatives of the

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Finance Department to review monthly performance against budget and forecast, and to address accounting and finance related matters.

The Finance Department has established guidelines and procedures for the approval and control of expenditures. Operating expenditures are subject to overall budget control and are controlled within each business with approval levels for such expenditures being set by reference to the level of responsibility of each executive and officer. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment by the Finance Department or other Executive Directors are required for unbudgeted expenditures and material expenditures within the approved budget. Quarterly reports of actual versus budgeted and approved expenditures are also reviewed.

The General Manager of the Internal Audit Department of the Group's holding company, reporting directly to the Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations in various countries. Using risk assessment methodology and taking into account the dynamics of the Group's activities, internal audit derives its yearly audit plan which is reviewed by the Audit Committee, and reassessed during the year as needed to ensure that adequate resources are deployed and the plan's objectives are met. Internal Audit Department of the Group's holding company is responsible for assessing the Group's internal control system, formulating an impartial opinion on the system, and reporting its findings to the Audit Committee and the senior management concerned as well as following up on all reports to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained with the Group's external auditors so that they are aware of the significant factors which may affect their respective scopes of work.

Depending on the nature of business and risk exposure of individual business units, the scope of work performed by the internal audit function includes financial and operations reviews, recurring and surprise audits, fraud investigations and productivity efficiency reviews.

Reports from the external auditors on internal controls and relevant financial reporting matters are communicated with the General Manager of the Internal Audit Department of the Group's holding company and, as appropriate, with the financial controller of the relevant executive management team. These reports are reviewed and appropriate actions are taken.

Group Risk Management

The Chief Executive Officer and the Risk Management Department of the Group's holding company have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risks. The General Manager of the Risk Management Department of the Group's holding company, working with the business operations worldwide, is responsible for arranging appropriate insurance coverage and organising Group wide risk reporting.

Review Of Internal Control Systems

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's internal control systems for the year ended 31 December 2007, covering all material financial, operational and compliance controls and risk management functions.

CODE OF ETHICS

The Group places utmost importance on employees' ethical, personal and professional standards. Every employee is provided with the Group's Code of Ethics booklet, and all employees are expected to adhere to the highest standards set out in the Code of Ethics.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Group actively promotes investor relations and communications with the investment community when the interim and year end financial results are announced and during the course of the year. Through its Chairman and Chief Executive Officer, the Group responds to requests for information and queries from the investment community including institutional shareholders, analysts and the media through regular briefing meetings, conference calls and presentations. The other Directors, including Non-executive Directors, develop an understanding of the views of the major shareholders about the Company by periodic meetings on the subject with the Chairman and the Chief Executive.

The Board is committed to providing clear and full information on the Group to shareholders through the publication of notices, announcements, interim and annual reports. Moreover, additional information is also available to shareholders through the Investor Relations page on the Company's website.

Shareholders are encouraged to attend all general meetings of the Company, such as the annual general meeting for which at least 20 working days' notice is given and at which the Chairman and Directors are available to answer questions on the Group's businesses. All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders by sending to the Company Secretary at the head office address a written request for such general meetings together with the proposed agenda items. Financial and other information is made available on the Company's website, which is regularly updated.

The Group values feedback from shareholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions are welcome and can be addressed to the Company Secretary by mail/email or by e-mail to the Company's website.

By Order of the Board

Edith Shih

Director and Company Secretary

17 March 2008