

To the shareholders of Guangzhou Pharmaceutical Company Limited

On behalf of the Supervisory Committee of the Company (the "Supervisory Committee"), I report for your review, the duties performed by the Supervisory Committee during the year ended 31 December 2001 (the "year") in accordance with the articles of association.

### **Duties of the Supervisory Committee**

Four meetings were held by the Supervisory Committee during the reporting period, details of which are as follows:

- 1 The 2nd meeting of the 2nd term of the Supervisory Committee was held on 20 April 2001. The following resolution was passed:
  - discussed and approved the Report of the Supervisory Committee for the year ended 31 December 2000
- 2 The 3rd meeting of the 2nd term of the Supervisory Committee was held on 17 August 2001. The following resolutions were passed:
  - approved 2001 interim result announcement;
  - approved 2001 unaudited interim accounts and 2001 scheme of profit distribution
  - approved to make provisions for impairment loss in accordance with Accountign Standards for Business Enterprises and to formulate the required internal control policies
  - approved the implementation of the long-range incentive scheme
  - approved the proposal to hold the 2001 1st Extraordinary General Meeting
- 3 the 4th meeting of the 2nd term of the Supervisory Committee was held on 27 September 2001. The following resolutions were passed:
  - approved the connected transaction of acquisition of a property, namely Suikang Building, by Guangzhou Pharmaceutical Corporation, a wholly-owned subsidiary of the Company, from Guangzhou Pharmaceutical Resources Supplying Company, a fellow subsidiary of the Company
  - approved the establishment of independent director committee
  - approved the proposal to hold the 2001 1st Extraordinary General Meeting

- 4 the 5th meeting of the 2nd term of the Supervisory Committee was held on 18 December 2001. The following resolutions were passed:
- approved to entrust the Bank of New York to set up an American Depository Receipt in the United States of America
  - approved the resignation of Mr. Chen Xiangzhi, as Director and General Manager, and appointment of Mr. Zhou Yuejin as General Manager
  - approved the proposal of the reformation of Guangzhou Pharmaceutical Corporation and Kwang Chow First Chinese Medicine Factory to limited liabilities companies.

During the year ended 31st December 2001, all the Supervisors of the Company have complied with the PRC Company Law, the Company's Articles of Association, and the Hong Kong Listing Rules, have fulfilled their responsibilities, protected the interests of the Company and the shareholders, abided by the principal of honesty and trustworthiness, and devoted themselves to working cautiously and diligently.

**The Supervisory Committee's evaluation of the Company's performance is as follows:**

- 1 The operation decisions made by management of the Company during the year are in compliance with the laws and regulations of the State, the articles of association, the Hong Kong Listing Rules, and are in the interests of the Company's prospects and its shareholders. The Company's Directors and management have not committed any acts in breach of laws and regulations, the articles of association, nor have they engaged in any acts involving the infringement of the Company's interests or infringement of shareholder interests.
- 2 The domestic and international auditors will issue unqualified audit reports on the Company's accounts for the year ended 31 December 2001. The accounts prepared by us have been confirmed to reflect fairly the financial position and operating results of the Company.
- 3 The use of the net proceeds from issuing of shares is in line with the plans for the utilisation of proceeds as disclosed in the prospectus of public offering.
- 4 The considerations for the purchase and sales of the assets are reasonable and on arms-length basis. There have been no transactions which harm the interests of shareholders or led to the loss of the Company's assets.
- 5 The connected transactions are on an arms-length basis and do not involve any actions which may harm the interests of the Company.

On behalf of the Supervisory Committee  
**Chen Canying**  
*Chairman of the Supervisory Committee*

**4 April 2002**