1. *The Group had no significant litigation or arbitration during the report period.*

   GZ Chen Li Ji was involved in a lawsuit with Hong Kong Chen Li Ji Co., Ltd. ("Hong Kong Chen Li Ji") in relation to a dispute in the use of a trade mark and design of packaging of products. The parties had agreed on the settlement before the legal proceedings commenced and had signed an agreement to withdraw from the lawsuit. The Board considered that this case has no significant impact on operation and assets of the Group. In order to let shareholders understand the case, details stated as below:

   In August 1997, Hong Kong Chen Li Ji and its USA agent So's Ltd brought a litigation to the court of California, USA, against GZ Chen Li Ji's agent in the USA, Guosheng Trade Ltd infringing its right in the trade mark and product packaging of "Chen Li Ji" and "Ji He Tang". In August 1998, the paintiff applied to include GZ Chen Li Ji as defendant. In September 2001, before the legal proceedings commenced the plantiff and defendants underwent a obligatory settlement procedure in Hong Kong according to the laws of California, USA. In 4 December 2001, representatives of Hong Kong Chen Li Ji and GZ Chen Li Ji signed the agreement in relation to the dispute and agree to withdraw the case. The agreement confirmed that GZ Chen Li Ji is the only user of "Chen Li Ji" and "Ji He Tang" within mainland while Hong Kong Chen Li Ji covers Hong Kong, USA, Canada, Australia, Singapore, Malaysia, Thailand, Vietnam, Indonesia, Japan and Taiwan. The agreement also regulated the package and manufacturer's title when one side enters another side's market. GE Chen Li Ji agreed to pay a compensation of US$100,000 dollars for legal cost incurred by Hong Kong Chen Li Ji incurred in USA and Hong Kong. The application for withdraw this case is in process.

2. During the reporting period, there was one merger occurred, according to the decision of the 3rd meeting of the Board of the 2nd term, Kwang Chow First Factory merged with GE Zhongsheng and for Kwang Chow First Factory shall carry out the merger in accordance with the laws and regulations. The merger was completed on 14 August 2001. GE Zhongsheng was abolished as a company and all debtors and creditors are borne by Kwang Chow First Factory.

   Apart from the transaction above, there were no material purchases, sales of assets, or merger and acquisition activities during the report period.

3. Details of significant connected party transactions of the Company during the report period are as follows:

   (a) During the reporting period, the Company engaged in the following related party transaction: GPC purchased the Suikang Building, which is located at No. 82 Shangxiajiu Road Guangzhou, from Guangzhou Pharmaceutical Resources Supplying Company, a wholly-owned subsidiary of GZPHL. The agreed amount is based on the revaluation of Rmb39,239,480.

   The independent directors committee approved the above connected party transaction and regarded the transaction as being on arm's length. The deal was based on equal, just and fair basis and served the best interests of all shareholders.

   The details of the above connected party transactions were disclosed in China Securities, Shanghai Securities Daily, Hong Kong Economic Daily, and Hong Kong iMail on 28 September 2001.

   (b) Other related party transactions had been set out on pages 130 to 131.

4. *Major contracts and their implementation*

   (a) During the reporting period, the Company did not hold on trust, subcontract or rent assets of other companies or vice versa, which generated profit that accounted for 10% or more of the total profits for the year.

   (b) The Company did not guarantee for any other company during the report period.

   (c) Assets held on trust

   With the written approval of the 5th meeting of the 2nd term of the Board, the Company entrusted Southern Securities Co., Ltd. to invest in state bonds and securities with the fund of the Company. The entrusted amount was Rmb 30 million, and the entrusted period was from 26 July 2001 to 31 December 2001. The Company had collected the principal of the investment and earned a profit of Rmb3,160,000 on 31 December 2001.

   GZ Chen Li Ji entrusted Northeast Securities Co., Ltd. to manage the Company's investment. The entrusted amount is Rmb 20 million, and the entrusted period was from 26 July 2001 to 26 July 2002.

   GZ Yang Cheng and GZ Pan Gao Shou, subsidiaries of the Company, entrusted Dapeng Securities Co., Ltd. to invest in government bonds. The entrusted amount is Rmb 20 million and Rmb 25 million respectively. The entrusted period was from 26 July 2001 to 26 July 2002.

   The Company was not involved in any other major contracts.

5. *Progress of fulfilling the commitment made by the Company or shareholders holding shares of 5% or above*

   (a) On 19 October 2000 GZPHL, the ultimate holding company, made a commitment to avoid competition with the Company. Regardless of whether GZPHL is either a direct or an indirect shareholder of the Company, GZPHL and its subsidiaries will not engage directly or indirectly in any business that may compete with the Company and its subsidiaries. In addition, GZPHL and its subsidiaries would not engage in researching, manufacturing or selling any products of the same kind as the Company's or its subsidiaries'.

   During the reporting period, GZPHL had made an announcement on the competition within the medical business as GZPHL was involved in the reform of GZ Baiyunshan Pharmaceutical Company Limited (GZBYS). A small portion of the products of the Company and GZ Baiyunshan has business competition. Although the competition would not affect either side's interests or transfer unusual interests between the parties, GZPHL committed that in order to observe the related CSRC's regulations, it would within its power adjust the production structure and resolve the existing business competition within 2 years.

   (b) The use of the net proceeds from the issue of A shares is in accordance with the plans for the utilisation of proceeds as disclosed in the prospectus of public offering. (For detailed information please refer to the usage of proceeds)

6. In 2001, the Company paid Rmb950,000 and RMB2,450,000 to Guangzhou Yangcheng Certified Public Accountants Co Ltd and PricewaterhouseCoopers respectively as auditors' remuneration of which, Rmb600,000 was paid to Guangzhou Yangcheng Certified Public Accountants Co Ltd for the 2000 audit, Rmb200,000 for the 2001 interim review and Rmb150,000 for capital verification and Rmb1,960,000 was paid to PricewaterhouseCoopers for the 2000 audit and Rmb490,000 for 2001 interim review.

7. During the reporting period, the Company, its directors and management, have not incurred any penalties imposed by any regulatory bodies.

8. There was no change in the ultimate holding company of the Group.

9. There was no change in the name and codes of the of the Companies shares during the reporting period.

10. Pursuant to a document (2000) 1063 issued by the Guangzhou Finance Bureau, enterprise income tax of listed companies in Guangzhou city in 2001 will be initially based on the unified tax rate of 33% and the portion over 15% of the tax attributed to local government (i.e., 60% of the 18% of tax) shall be refunded. Accordingly, the effective income tax refund rate is 10.8%. The Company and its major subsidiaries will effectively be taxed at 22.2% in the year 2001. The Company had received the local tax refund of approximately Rmb13,000,000 for the first half of the year. It is estimated that the local tax refund estimated at Rmb18 million for the second half of the year shall be received in first half of 2002 .

    This preferential treatment was terminated on 1 January 2002, the Group will be taxed in accordance with the unified tax rate.

11. The impact of China becoming member of WTO on the future operating activities of the Company.

    Included in the legal documentation regarding China's accession to the WTO, is the following commitment in respect of the pharmaceutical industry:

    (1) to protect intellectual property rights (2) to reduce the custom duties levied on medicine (3) to open the market of the medicine distribution services and medical services (4) to abolish the controls on the importing of large medical apparatus"

    The above terms will have the following influence on the operating activities of the Company:

    (a) The reproduction of patent medicine will be limited. At present, the majority of western drugs in the mainland China are generic products. After accession to the WTO, those companies in the industry will be limited to imitating or manufacturing only those products whose patent rights have expired. Otherwise, they must develop new products on their own. Although the Company has a competitive advantage in the CPM manufacturing industry, China's accession to the WTO will have centain impacts.

    (b) China has committed to allow foreign enterprises to provide sales services in China commencing from 2003. The sales services include purchasing, storing and distributing, wholesaling and retail, and provision of after-sales services. The commitment will have a great impact on China's traditional modes of wholesaling and retailing operations.

    (c) The average custom duties levied on medicine will decrease by approximately 60%. The percentage will decrease from the current rate of 14.2% to about 6%. The reduction in custom duties will result in a 10% decrease in prices of imported medicines, thus strengthening their competitiveness. However, for the time being, as there is a large difference between the prices of the Chinese-made and imported medicine, the lower custom duties will have a limited impact on the imported volumes of overseas medicine.

    In dealing with the above impacts from WTO accession, the Company has stipulated the following strategies: (1) to increase the investment in the research of new products and stimulate the utilization of new technology, especially the research and the development of CPM and bio-chemical medicines; (2) to expedite the progress of further development of current products and key products; (3) to place emphasis on the application and enforcement of patents relating to products and technology and the protection of intellectual property rights; (4) to actively adopt the technology of modern logistics management and promote the application of computer network information technology; (5) to expand the sales network and increase the market share of key products.