

1. There is no material deviation between the actual corporate governance implemented by the Company and the rules and requirements of corporate governance required to be observed by the listed companies in the PRC.
2. The final dividend for the year 2003 will be fully distributed in the first half of August, 2004.
3. The Board did not recommend the payment of any interim dividend, nor any transfer from reserves to share capital, for the six months ended 30 June 2004.
4. In relation to the anti-dumping claim against the Company, as disclosed in the Company's 2003 Annual Report. The Department of Commerce of the USA has made a preliminary decision to withdraw such lawsuit against the Company. Other than the above-mentioned pending claim, the Group was not involved in any material litigation or arbitration, pending or threatened against the Group, for the six months ended 30 June 2004.
5. There was no material purchase or disposal of the Group's assets nor did any material mergers or acquisition involving the Company or the Group occur for the six months ended 30 June 2004. Similarly, no transactions of such nature occurred during the last reporting period that was carried over to this reporting period.
6. **Material Connected Transactions**  
The related party transactions of the Company are set out in the Note 37 to the accounts of the Company ("Accounts") prepared in conformity with PRC accounting standards and Note 13 to the Accounts prepared in conformity with HKGAAP.
7. For the six months ended 30 June 2004, there was no trust, subcontract and lease of the assets between the Company and other companies.
8. For the six months ended 30 June 2004, there was no existing guarantee provided by the Company, nor has any new guarantee been provided by the Company.
9. The Company and its shareholders holding more than 5% of total number of issued shares of the Company have not provided any undertakings in newspapers and websites designated by the CSRC for information disclosure.
10. **Purchase, Sales and Redemption of the Company's listed securities**  
For the six months ended 30 June 2004, none of the members of the Group purchased, sold or redeemed any of its listed shares.
11. **Model code for securities transactions by Directors of the Listed Issuers ("Model Code")**  
For the six months ended 30 June 2004, the Company has adopted a code of conduct regarding securities transactions by Directors and Supervisors on terms no less exacting than the required standard set out in the Model Code. After having made specific enquiry of all Directors and Supervisors of the Company, the Directors and Supervisors have complied with the required standard set out in the Model Code regarding securities transactions by Directors and Supervisors.
12. **Code of best practice**  
None of the Directors is aware of any information that would reasonably indicate that the Group is not or was not, at any time during the six months ended 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules issued by the SEHK.
13. **Management of Funds**  
For the six months ended 30 June 2004, the Company did not appoint any person for managing the Company's funds, and no such appointment was made in the preceding reporting period that was carried over to this reporting period.
14. **Staff and remuneration**  
The number of staff of the Group as at 30 June 2004 was 4,669, and their total amount of salaries and wages paid and payable for the six months ended 30 June 2004 was RMB41,483,000.

### 15. Important disclosed information index

The announcements of “2003 Annual Results” and the announcement of “Connected Transactions” were published in the PRC domestic newspaper, Securities Times page 51, as well as Hong Kong newspapers, Wen Wei Po and The Standard, on 29 March 2004.

The announcement of “First Quarter Report of 2004” was published in the PRC domestic newspaper, Securities Times page 65 on 17 April 2004.

“The Notice of 2003 Annual General Meeting” was published in the PRC domestic newspaper, Securities Times page 21 on 20 April 2004.

The announcement of “Resolutions of 2003 Annual General Meeting” was published in the PRC domestic newspaper, Securities Times page 15, as well as Hong Kong newspapers, Wen Wei Po and The Standard, on 8 June 2004.

### 16. Other disclosures

The independent directors have given following specific explanation and independent opinions in respect of the accumulated and existing guarantee provided by the Company and the execution of the notice Zhengjianfa [2003] No.56 issued by the CSRC:

Being the independent directors of Shandong Xinhua Pharmaceutical Company Limited (the “Company”), we have investigated and reviewed the Company’s existing guarantee and the execution of the notice Zhengjianfa 2003 No.56 issued by the CSRC in accordance with the regulations stipulated in “The Notice on the standardization in respect of Cash Flow between the listed companies and their related parties and guarantee of listed companies” (Zhengjianfa 2003 No.56) and “The Standard of Content And Format of Disclosure Information of listed companies - The Content And Format of Annual Report (Zhengjiangongsizi 2003 No.56). At the same time, we also communicated with the Board of Directors, the Supervisory Committee and the management in this respect. On the basis of the information we have collected, our explanatory statement and independent opinion are as follows:

- (1) The Company strictly conformed to the relevant laws and regulations and did not provide any guarantee in any forms to any company, entity or individuals.
- (2) As at 30 June 2004, accounts receivable from the holding company and other related parties amounted to RMB39,624,000, representing RMB1,585,000 decrease from the beginning of this year. The accounts receivable from the holding company, Shandong Xinhua Pharmaceutical Group Company Limited were RMB3,340,000, representing RMB3,481,000 decrease from the beginning of this year. The accounts receivable from the subsidiaries of the holding companies was RMB36,284,000. The amount receivable from its immediate holding company will be deducted from the dividend payable to the holding company of the Company.
- (3) The cash flow between the Company and the related parties mainly resulted from activities in the ordinary and usual course of business such as sales of by-products, providing powers, labour services and technical services by the Company to related parties and the purchase of raw materials and labour services by the Company from related parties. Such cash flow between the Company and related parties is settled fairly and reasonably in accordance with the terms and conditions of the relevant agreements.
- (4) The Company did not provide any direct or indirect funding to related parties by any of the following means:
  - (i) The Company did not lend any funds to its holding company and related parties with or without interest;
  - (ii) The Company did not provide any designated loans to related parties through any banks or non-banking financial institutions.
  - (iii) The Company did not entrust its holding company or other related parties to make any investment.
  - (iv) The Company did not issue any commercial acceptance bill without any bona fide transaction for the holding company or other related parties.
  - (v) The Company did not repay any debts on behalf of its holding company and other related parties.