

# Report of the Supervisory Committee

## To all the shareholders:

On behalf of the Supervisory Committee of the Company (the "Supervisory Committee"), I hereby report to you, the duties performed by the Supervisory Committee during the year ended 31 December 2004 in accordance with the Company's Articles of Association.

## Meetings of the Supervisory Committee held during the Year

During the Year, five meetings were held by the Supervisory Committee, details of which are set out as follows:

1. The 16th meeting of the Second Session of the Supervisory Committee of Company was held on 6 February 2004, at which the following resolutions were considered and passed: .
  - The resolution in relation to the connected transaction for the Company's acquisition of 51% equity interest of Guangzhou Yingbang held by GPLH;
  - The resolution in relation to the connected transactions regarding lease of offices by the Company and renewal of the lease of the office and other premises;
  - The resolution in relation to the non-competition agreement entered into between the Company and Baiyunshan Pharmaceutical;
  - The recommendation of Mr. Zhong Yugan and Mr. Ou Yangqiang as the candidates for appointment as Supervisors of the new session of the Supervisory Committee, and Mr. Chen Canying as the candidate for appointment as the Supervisor representing the employees of the new session of the Supervisory Committee of the Company; and
  - The proposal to convene the Company's first EGM.
2. The 17th meeting of the Second Session of the Supervisory Committee was held on 26 March 2004, at which the following resolutions were considered and passed:
  - the report of the Supervisory Committee for the year 2003; and
  - the audited financial report of the Company for the year 2003.
3. The 1st meeting of the Third Session of the Supervisory Committee was held on 28 April 2004, at which the following resolutions were considered and passed:
  - the 2004 1st quarterly report of the Company; and
  - the election of Mr. Chen Canying as the Chairman of the Third Session of the Supervisory Committee of the Company.

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4. The 2nd meeting of the Third Session of the Supervisory Committee was held on 27 August 2004, at which the following resolutions were considered and passed:
  - 2004 interim report of the Company;
  - unaudited financial report of the Company for the first half of 2004;
  - opinion of the Audit Committee on the 2004 interim report of the Company; and
  - proposed subscription of newly issued shares of Guangzhou Hanfang by the Company.
5. The 3rd meeting of the Third Session of the Supervisory Committee was held on 28 October 2004, at which the 2004 3rd quarterly report of the Company was considered and passed.

## Independent Opinion of the Supervisory Committee on the Company's Operations in 2004

During the Reporting Period, all the Supervisors of the Company have complied with the PRC Company Law, the Company's Articles of Association, and the listing rules of Shanghai Stock Exchange and HKEX, have fulfilled their responsibilities, have seriously monitor the daily operation and regulate the financial operation to ensure that they are operated in a lawful manners safeguarded the interests of the Company and the shareholders and devoted themselves.

The independent opinion of the Supervisory Committee on the Company's operations during the Reporting Period is set out as follows:

1. The Company's operations during the Reporting Period

During the Reporting Period, the Supervisory Committee has monitor the procedures for convening Board meetings and shareholders' meetings and the resolutions proposed to be considered thereat, as well as the execution by the Board of the resolutions passed at the shareholders' meetings and considers that the operation decisions made by the management of the Company during the Year are in compliance with the rules and regulations of the State, the Articles of Association as well as the listing rules. The Company has established a set of relatively complete internal rules and the Board of the Company has executed the resolutions of the shareholders' meetings of the Company diligently. The Company's Directors and senior Management have not committed any acts in breach of the rules and regulations, the Articles of Association, nor have they engaged in any acts involving the infringement of the Company's interest or infringement of shareholder's interests.

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## 2. The supervision of the Company's financial condition

The Supervisory Committee has carefully reviewed the financial statements and other financial information of the Company during the Reporting Period, and considers that the Company's financial statements are clear, and the auditing and financial management are in line with relevant regulations. The 2004 auditors' reports issued by the domestic and international auditors was in line with their opinion that the accounts of the Company for the year ended 31 December 2004 exhibited a true and view of the state of the Company as at 31 December 2004 and the result of the Group for the year then ended. The domestic and international auditors issued unqualified audit reports respectively on the Company's accounts for the year ended 31 December 2004.

## 3. Use of proceeds raised from the issue of A shares

During the Reporting Period, the use of the proceeds from the issue of A shares was in line with the undertakings made in the prospectus for the issue of A shares. There was no improper use of the proceeds.

## 4. Purchases and sales of assets of the Company

During the Reporting Period, the consideration for the purchases and sales of assets are reasonable and arrived at on an arm's length basis. There have been no insider dealing transactions which would harm the interests of shareholders or cause loss of the Company's assets.

## 5. Connected transactions

During the Reporting Period, the Company's connected transactions mainly include:

- (1) Company's acquisition of 51% equity interest of Guangzhou Yingbang held by GPLH;
- (2) agreements on the leasing of office building and renewal of office building and other premises, the Continuing Connected Transaction Agreement, and the supplemental trademark licence agreement between GPLH and the Company;
- (3) trademark licence agreement between GPLH and Wang Lao Ji; and
- (4) subscription by the Company of the newly issued shares of Guangzhou Hanfang at the consideration of RMB44,480,000.

The above connected transactions are on an arm's length basis and do not involve any actions which may harm the interests of the Company and its shareholders.

On behalf of the Supervisory Committee

**Chen Canying**

*Chairman*

Guangzhou, PRC, 27 April 2005