

6. MAJOR EVENTS

6.1 CORPORATE GOVERNANCE OF THE COMPANY

During the Reporting Period, the Company's general meetings, the Board, the Supervisory Committee and its Senior Management have been in strict compliance with the provisions under the PRC Company Law, the PRC Securities Law, the Code on Corporate Governance Practices for Listed Companies issued by the Chinese Securities Regulatory Commission ("CSRC") and relevant laws and regulations and other requirements provided in the regulatory documents.

During the Reporting Period, in accordance with the requirements issued by CSRC and the Listing rules by Shanghai Stock Exchange ("SSE") respectively and the Notice of Transmitting the "Notice of Supervising the Amendment to the Articles of Association of Listed Companies" issued by Guangdong office of CSRC, the Company made amendments to the Company's Articles of Association, the Rules of Shareholders' Meetings, the Rules of Board Meetings and the Rules of the Supervisory Committee at the 23rd meeting of the third Session of the Board held on 27 April 2006, and such resolutions were considered and approved at the annual general meeting .

As at the end of the Reporting Period, there was no material difference between the actual implementation of the Company's corporate governance and the requirements in the relevant documents issued by CSRC.

6.2 IMPLEMENTATION OF PROFIT DISTRIBUTION SCHEME AND INCREASE IN SHARE CAPITAL FROM CAPITAL RESERVE OR ISSUE OF NEW SHARES OF THE COMPANY FOR 2005

- (1) Pursuant to the resolutions on profit and dividend distribution passed at the 2005 annual general meeting held on 30 June 2006, 2005 final dividend of RMB0.70 (including withholding tax for A shares) for every 10 shares held was approved and paid, in cash, to all shareholders of the Company, based on the total share capital of 810,900,000 shares at the end of 2005;
- (2) On 30 June 2006, the final dividend of RMB0.07 per share for the 2005 was paid to the Company's H shareholders whose name appeared on the register of the Company as at 16 May 2006;
- (3) According to the announcement for 2005 final dividend published in Shanghai Securities News in the PRC on 26 June 2006, the registration date for A shares was 29 June 2006, the ex-dividend date was 30 June 2006 and the dividend payment date was 10 July 2006;
- (4) During the Reporting Period, the Company did not propose any new issue of shares .

6.3 INTERIM DIVIDEND

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2006 nor propose any increase in share capital from the capitalization of capital reserve.

6.4 DURING THE REPORTING PERIOD, THE GROUP HAS NO SIGNIFICANT LITIGATION OR ARBITRATION.

6.5 THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS (INCLUDING SUBSIDIARIES OR ASSOCIATED COMPANIES) OR MERGER AND ACQUISITION ACTIVITIES

The Company entered into an equity transfer agreement with Hong Kong Xin Lian Hua Industrial Company Limited ("Xin Lian Hua") on 24 March 2006 in respect of a transfer of the 21.42% shareholdings of the Company in Nanfang Packaging Co., Limited (佛山市南方包装有限公司) to Xin Lian Hua at a consideration of RMB30 million. The equity transfer was completed.

6.6 CONNECTED TRANSACTIONS

- (1) Certain entities under the Company and BYSCL together with six of its subsidiaries agreed to contribute jointly RMB20,000,000 in cash for the establishment of Guangzhou Pharmaceutical Soccer Club Limited (“GPSC”). On 23 February 2006, the parties entered into an Agreement for the Establishment of GPSC. According to the respective listing rules of SSE and the HKEX, the transaction constituted a connected transaction. The agreement was considered at the 19th meeting of the Third Session of the Board held on 23 February 2006, and in respect of which, the Independent Non-executive Directors expressed their independent opinion.

For details, please refer to the announcements published in Shanghai Securities News in the PRC, Hong Kong Economic Times and The Standard on 24 February 2006.

- (2) On 15 June 2006, the Company and GPSC entered into a Continuing Connected Transaction of Advertising Agreement. According to the respective listing rules of SSE and the HKEX, the transaction constituted a connected transaction. The agreement was considered at the 23rd meeting of the Third Session of the Board held on 15 June 2006, and in respect of which, the Independent Non-executive Directors expressed their independent opinion.

For details, please refer to the announcements published in Shanghai Securities News in the PRC, Hong Kong Economic Times and The Standard on 16 June 2006.

- (3) After the Reporting Period, the Company acquired an aggregate of 9.64% shareholdings in Guangzhou Zhong Yi Pharmaceutical Co., Ltd jointly held by the subsidiary, Guangzhou Pharmaceutical Co., Ltd, and 33 natural person shareholders with its own capital of RMB36,814,400. All parties entered into an equity transfer agreement on 26 July 2006. According to the Listing Rules, the acquisition of shareholdings from seven of the natural person shareholders by the Company constituted a connected transaction. During the Company’s 24th meeting of the Third Session of the Board held on 26 July 2006, the connected transaction was reviewed and on which independent opinion from Independent Non-executive Directors had been expressed. Associated director Feng Zansheng had abstained from voting in respect of this resolution.

For details, please refer to the announcements published in Shanghai Securities News in the PRC, Hong Kong Economic Times and The Standard on 27 July 2006.

The relevant procedures for the above connected transactions have been followed in strict compliance with the provisions under relevant laws and regulations.

Details of connected party transactions entered into in the ordinary course of business are disclosed in the notes to the financial statements prepared in accordance with PRC Accounting Standards and Systems.

6.7 MAJOR CONTRACTS AND THEIR PERFORMANCE

- (1) During the Reporting Period, the Company did not hold on trust, sub-contract or lease any assets of other companies or vice versa, which generated profit that accounted for 10% or more of the total profits for the period.
- (2) During the Reporting Period, the Company was not engaged in any entrusted fund management activities.

6.8 DURING THE REPORTING PERIOD, NO COMMITMENT WAS MADE, OR HAD BEEN MADE IN THE PREVIOUS PERIODS AND SUBSISTED IN THE REPORTING PERIOD, BY THE COMPANY OR ANY OF ITS SHAREHOLDERS HOLDING SHARES OF 5% OR MORE, WHICH HAD SIGNIFICANT IMPACT ON THE GROUP’S OPERATION RESULTS AND THE STATE OF AFFAIRS.

6.9 BANK LOANS, OVERDRAFT AND OTHER BORROWINGS

As at 30 June 2006, short-term loans of the Group decreased by RMB26,337,000 compared with those at the beginning of the Reporting Period.

6.10 GEARING RATIO

As at 30 June 2006, the Group's gearing ratio (total liabilities/total assets x 100%) was 47.55% (31 December 2005: 44.94%). There have been no material adverse changes in the gearing ratio of the Group as compared with that of 2005.

6.11 COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Having reviewed the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code"), the Company has complied with the requirements as set out in the Code during the Reporting Period and no material deviations from the Code occurred.

6.12 MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company had adopted the Model Code for Securities Transaction by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules as the standards for securities transactions entered into by Directors and Supervisors. After specific enquiries made to all Directors and Supervisors, the Company has confirmed that all the Company's Directors and Supervisors complied with the requirements relating to Directors' and Supervisors' dealing in securities as set out in the standards for transactions made by Directors' as set out in the above code during the Reporting Period.

6.13 THE AUDIT COMMITTEE OF THE BOARD CONSISTS OF THREE INDEPENDENT NON-EXECUTIVE DIRECTORS, ONE OF WHOM HAS APPROPRIATE PROFESSIONAL QUALIFICATION. THE AUDIT COMMITTEE OF THE COMPANY HAS REVIEWED THE ACCOUNTING POLICIES, ACCOUNTING STANDARDS AND TREATMENTS ADOPTED BY THE GROUP, AND DISCUSSED WITH THE MANAGEMENT ABOUT THE AUDIT, INTERNAL CONTROLS AND FINANCIAL REPORTING MATTERS. THE AUDIT COMMITTEE HAS ALSO REVIEWED THE UNAUDITED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2006.

6.14 THE FINANCIAL REPORTS FOR THE REPORTING PERIOD WERE UNAUDITED.

6.15 DURING THE REPORTING PERIOD, NO INVESTIGATION, PUNISHMENT OR PUBLIC REPRIMAND BY THE CSRC, AND NO PUNISHMENT OR PUBLIC REPRIMAND BY OTHER REGULATORY BODIES AND THE HKEX WERE MADE AGAINST AND IMPOSED ON THE COMPANY, THE BOARD AND DIRECTORS.

6.16 DURING THE CURRENT REPORTING PERIOD, THERE WERE NO OTHER SIGNIFICANT EVENTS OCCURRED WHICH MIGHT SIGNIFICANTLY AFFECT THE COMPANY.

6.17 INDEX TO THE IMPORTANT INFORMATION DISCLOSED DURING THE REPORTING PERIOD

Disclosed information	Newspaper	Date	Website and the link
Announcement on Expected Improvement in Results for 2005	Shanghai Securities News Hong Kong Economic Times The Standard	19 January 2006	http://www.sse.com.cn http://www.hkex.com.hk
Announcements on the connected transactions	Shanghai Securities News Hong Kong Economic Times The Standard	4 February 2006	http://www.sse.com.cn http://www.hkex.com.hk
Notice for the share reform	Shanghai Securities News Hong Kong Economic Times The Standard	6 March 2006	http://www.sse.com.cn http://www.hkex.com.hk
Statement of share reform (summary) Letter of the Board for the collection of voting for the share reform	Shanghai Securities News China Securities Journal Securities Times	15 March 2006	http://www.sse.com.cn http://www.hkex.com.hk
Notice for holding general meeting for A Shareholders	Hong Kong Economic Times The Standard		

Notice for online meeting for the share reform China Securities Journal	Shanghai Securities News China Securities Journal Securities Times	16 March 2006	http://www.sse.com.cn http://www.hkex.com.hk http://www.hkex.com.hk
Updates of the discussions on the share reform plan and the revision of the share reform plan	Shanghai Securities News China Securities Journal Securities Times Hong Kong Economic Times The Standard	24 March 2006	http://www.sse.com.cn http://www.hkex.com.hk
First notice on the holding of general meeting for A Shareholders	Shanghai Securities News China Securities Journal	27 March 2006	http://www.sse.com.cn http://www.hkex.com.hk
Summary of annual report for 2005 Announcement on the resolutions passed at the 21st meeting of the Third session of the Board Announcement on the resolutions passed at the 7th meeting of the Third session of the Supervisory Committee	Shanghai Securities News Hong Kong Economic Times The Standard	3 April 2006	http://www.sse.com.cn http://www.hkex.com.hk
Second notice for holding of general meeting for A Shareholders	Shanghai Securities News China Securities Journal	5 April 2006	http://www.sse.com.cn http://www.hkex.com.hk
Announcement on the voting results of A Shareholders' meeting	Shanghai Securities News China Securities Journal Securities Times Hong Kong Economic Times The Standard	13 April 2006	http://www.sse.com.cn http://www.hkex.com.hk
Announcement on the implementation of the share reform plan	Shanghai Securities News China Securities Journal Securities Times Hong Kong Economic Times The Standard	19 April 2006	http://www.sse.com.cn http://www.hkex.com.hk
Announcement on 2006 first quarterly report Announcement on resolutions passed at the 22nd meeting of the 3rd session of the Board Announcement on resolutions passed at the 8th meeting of the 3rd session of the Supervisory Committee Announcement on resignation of director Notice of 2005 Annual General Meeting	Shanghai Securities News Hong Kong Economic Times The Standard	28 April 2006	http://www.sse.com.cn http://www.hkex.com.hk
Announcement of Guangzhou Pharmaceutical Company Limited	Shanghai Securities News Hong Kong Economic Times The Standard	17 May 2006	http://www.sse.com.cn http://www.hkex.com.hk
Announcement on resolutions passed at the 2005 Annual General Meeting Announcement on resolutions passed at the 23rd Meeting of the 3rd session of the Board Announcement on resignation of director Announcement for continuing connected transactions	Shanghai Securities News Hong Kong Economic Times The Standard	16 June 2006	http://www.sse.com.cn http://www.hkex.com.hk
Announcement on the payment of 2005 final dividend	Shanghai Securities News	26 June 2006	http://www.sse.com.cn

6.18 OTHER MATTERS

6.18.1 Guarantees

During the Reporting Period, guarantees provided by the Company are set out as follows:

Names of companies guaranteed	Guarantees	Amounts RMB'000	Terms
Guangzhou Pharmaceutical Co., Ltd	Borrowings for working capital	370,000	1 year
Guangzhou Chinese Medicine Corporation	Borrowings for working capital	10,000	1 year
Guangzhou Pharmaceutical Import & Export Corporation	Borrowings for working capital	10,000	1 year
Guangzhou Han Fang Contemporary Medicine Research and Development Co., Ltd.	Borrowings for working capital	18,000	1 year
Guangzhou Bi-technology Pharmaceutical Co., Ltd	Borrowings for working capital	10,000	1 year
Guangzhou Pharmaceutical Co., Ltd	Discounted bills	28,170	1 year
Guangzhou Pharmaceutical Import & Export Corporation	Discounted bills	5,490	1 year
Guangzhou Pharmaceutical Import & Export Corporation	Trade quotas	15,200	1 year
Total		<u>466,860</u>	

All the above are the guarantees provided by the Company to its subsidiaries. Save as the above, the Company did not provide any other guarantees during the Reporting Period.

6.18.2 During the Reporting Period, the Company strictly controlled the fund transactions with its controlling shareholder and other related parties, in accordance with Notice of CSRC [2003] No.56. During the Reporting Period, the total amount of capital utilised by the Company's controlling shareholder and its subsidiaries was as below:

Capital utilised by:	Relationship with the Company	Accounting items reflected in the accounting statements	Amount at the end of the Reporting Period RMB'000	Amount at the beginning of the Reporting Period RMB'000	Accumulated debit transactions RMB'000	Accumulated credit transactions RMB'000	Usage	Reasons
GPHL	Parent Company	Other receivables	4,440	5,060	—	620	Prepayments and current accounts	Prepaid rents and ordinary transactions
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	41,810	26,468	38,608	23,266	Sales	Production
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	2,852	1,714	11,119	9,981	Sales	Production
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	1,481	1,842	8,765	9,126	Sales	Production
Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	512	238	1,906	1,632	Sales	Production
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	3,780	2,895	36,855	35,970	Sales	Production
		Prepayments	6,045	—	6,045	—	Purchase	Production
Wang Lao Ji	Jointly Controlled entity	Other receivables	2,051	—	2,051	—	Current accounts	Ordinary transactions
		Accounts receivable	3,186	2,268	24,844	23,926	Sales	Production
		Prepayments	44	—	44	—	Purchase	Production
Guangzhou Baiyunshan HW Chinese Medicine Co., Ltd.	Fellow subsidiary	Accounts receivable	216	1,777	6,276	7,837	Sales	Production
		Prepayments	2,288	197	2,288	197	Purchase	Production
BYSCl Guangzhou Baiyunshan Pharmaceutical Factory	Fellow subsidiary	Accounts receivable	4,495	4,224	17,324	17,053	Sales	Production
BYSCl Guangzhou Baiyunshan Chemical Pharmaceutical Factory	Fellow subsidiary	Accounts receivable	79	1,208	2,087	3,216	Sales	Production
		Prepayments	200	—	200	—	Purchase	Production
Guangzhou Baiyunshan External Pharmaceutical Factory	Fellow subsidiary	Accounts Receivable	478	170	836	528	Sales	Production
		Prepayments	72	—	72	—	Purchase	Production
Guangzhou Huanan Medical Apparatus Co., Ltd	Fellow subsidiary	Other receivables	100	100	—	—	Current accounts	Ordinary transactions
Po Lian Development Co., Ltd	Fellow subsidiary	Other receivables	6	7,993	—	7,987	Current accounts	Ordinary transactions
Guangzhou Medical Material Supply Corporation	Fellow subsidiary	Prepayments	4	—	4	—	Purchase	Production
Guangzhou Lianjie Computer Technology Co., Ltd	Jointly controlled entity	Other receivables	420	520	—	100	Sales	Production
Total		Other receivables	7,017	13,673	2,051	8,707		
		Accounts receivable	58,889	42,804	148,620	132,535		
		Prepayments	8,653	197	8,653	197		

6.18.3 Explanation and independent opinions from Independent Non-executive Directors in respect of accumulated and current external guarantees granted by the Company, and in respect of the amount of capital used by the controlling shareholder of the Company and other connected parties.

According to CSRC [2003] No.56 the “Notice Concerning the Regulation on the Flow of Funds Between Listed Companies and Their Related Parties and the Provision of Guarantees by Listed Companies to External Parties”, we have conducted serious examination and implementation for the purpose of seeking truth from facts. The relevant information is as follows:

As of the date of Reporting Period, the Group had not provided any guarantees to the controlling shareholder and other connected parties.