

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 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 2005.
3. The Group was not involved in any material litigation or arbitration, pending or threatened against the Group, for the six months ended 30 June 2005.
4. 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 2005. Similarly, no transactions of such nature occurred during the last reporting period that was carried over to this reporting period.
5. **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 14 to the Accounts prepared in conformity with HKGAAP.
6. For the six months ended 30 June 2005, there was no trust, subcontract and lease of the assets between the Company and other companies.
7. For the six months ended 30 June 2005, there was no existing guarantee provided by the Company, nor has any new guarantee been provided by the Company.
8. 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.
9. **Purchase, Sales and Redemption of the Company's listed securities**
For the six months ended 30 June 2005, none of the members of the Group purchased, sold or redeemed any of its securities.
10. **Management of Funds**
For the six months ended 30 June 2005, 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.
11. **Important announced information index**
The announcement of "Warning of annual results for 2004" was published in the Hong kong newspaper, Wen Wei Po and The Standard, on 31 January 2005, and in the PRC domestic newspaper, Securities Times page A19, on 29 January 2005.
The announcement of "2004 Annual Results" was published in the Hong kong newspaper, Wen Wei Po and The Standard, on 29 March 2005, and in the PRC domestic newspaper, Securities Times page 54, on 25 March.
The announcement of "The First Quarter Report of 2005" and the announcement of "Non-exempt Continuing Connected Transactions" and the announcement of "The Notice of 2004 Annual General Meeting" were published in the Hong kong newspaper, Wen Wei Po and The Standard, and in the PRC domestic newspaper, Securities Times page 32, on 21 April.
The announcement of "The Notice of 2005 Extraordinary General Meeting" was published in the Hong kong newspaper, Wen Wei Po and The Standard, and in the PRC domestic newspaper, Securities Times page 11, on 12 May.
The announcement of "2004 Annual General Meeting Resolutions" was published in the Hong kong newspaper, Wen Wei Po and The Standard, and in the PRC domestic newspaper, Securities Times page 10, on 8 June.
The announcement of "Extraordinary General Meeting Resolutions" was published in the Hong kong newspaper, Wen Wei Po and The Standard, and in the PRC domestic newspaper, Securities Times page 30, on 30 June.
12. The independent directors special explanation and independent opinions in respect of the security provided by the Company and the execution of the notice Zhengjianfa [2003] No.56 issued by the CSRC are as follows:
Being the independent directors of Shandong Xinhua Pharmaceutical Company Limited, we have investigated and reviewed the Company's security 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 provided by listed companies" At the same time, we have also communicated with the Board of Directors, the Supervisory Committee and the management in respect of the above information. On the basis of the information we have collected, we formulated our opinion as follows:
 - (1) The Company strictly conformed to the relevant laws and regulations and did not provide any security in any forms to any company, entity or individuals.
 - (2) As at 30 June 2005, accounts receivable from the holding company and other related parties amounted to RMB63,632,000, amongst which the accounts receivable from the holding company, Shandong Xinhua Pharmaceutical Group Company Limited were RMB25,619,000, the accounts receivable from the subsidiaries of the holding companies was RMB35,272,000. the accounts receivable from the associated companies was RMB2,741,000.
 - (3) The cash flow between the Company and the related parties mainly resulted from the ordinary and usual course of business such as sales of by-products, providing powers, and service in terms of labour and technology by the Company to related parties and the purchase of raw materials and services by the Company from the 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.