

REPORT OF THE SUPERVISORY COMMITTEE

To the shareholders of Guangzhou Pharmaceutical Company Limited

On behalf of the Supervisory Committee of the Company (the “Supervisory Committee”), I report for your review, the duties performed by the Supervisory Committee during the year ended 31 December 2002 (the “year”) in accordance with the Articles of Association.

1 DUTIES OF THE SUPERVISORY COMMITTEE

Six meetings were held by the Supervisory Committee during the reporting period, details of which are as follows:

- (1) The 6th meeting of the Supervisory Committee of the 2nd term was held on 4 April 2001. The following resolution was passed:
 - the 2001 Director's report;
 - the 2001 Report of the Supervisory Committee;
 - the 2001 audited accounts;
 - the 2001 auditors' reports;
 - re-appointment of Guangzhou Yangcheng Certified Public Accountants Co., Ltd. and Pricewaterhousecoopers as domestic and international auditors of the Company respectively, and to recommend at the AGM to authorise the Board to determine auditors' remunerations;
 - the 2001 profit distribution and dividend payment scheme;
 - authorised the Board to determine the remuneration of the Directors and Supervisors for 2002;
 - the Rules of the Supervisory Committee;
 - the implementation of a long-term incentive scheme for 2002.
- (2) The 7th meeting of the Supervisory Committee of the 2nd term was held on 18 April 2001. The following resolution was passed by poll ballot:
 - the 2001 annual announcement.
- (3) The 8th meeting of the Supervisory Committee of the 2nd term was held on 16 July 2002. The following resolution was passed:
 - the connected transaction of property acquisitions by Baidi from GPIRI.

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- (4) The 9th meeting of the Supervisory Committee of the 2nd term was held on 16 August 2002. The following resolutions were passed:
- the 2002 interim announcement;
 - the 2002 unaudited interim report and profit distribution and dividend payment scheme;
 - the provisional scheme on employees' housing subsidies of the Company.
- (5) The 10th meeting of the Supervisory Committee of the 2nd term was held on 25 October 2002. The following resolution was passed:
- the 2002 3rd quarter announcement.
- (6) The 11th meeting of the Supervisory Committee of the 2nd term was held on 27 December 2002. The following resolutions were passed by ballot by phone:
- the implementation of the Internal Financial Management System of the Company;
 - the policies formulated in response to the queries raised by the CSRC;
 - to authorise the Chairman of the Board to sign the letter of consent to guarantee the loan credit facilities granted to the Group.

During the year ended 31 December 2002, all the Supervisors of the Company have complied with the PRC Company Law, the Company's Articles of Association, and the Hong Kong Listing Rules, have fulfilled their responsibilities, safeguarded the interests of the Company and the shareholders, abided by the principal of honesty and trustworthiness, and devoted themselves to working cautiously and diligently.

The Supervisory Committee's evaluation of the Company's performance is as follows:

- The operation decisions made by management of the Company during the year are in compliance with the rules and regulations of the State, the Articles of Association, the Hong Kong Listing Rules, and are in the interests of the Company's prospects and its shareholders. The Company's Directors and management have not committed any acts in breach of 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 interests.

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- The Supervisory Committee carefully reviewed the 2002 auditors' reports issued by domestic and international auditors and was in line with their opinion that the accounts of the Group and the Company for the year ended 31 December 2002 exhibited a true and view of the state of the Group and the Company as at 31 December 2002 and the result of the Group for the year then ended.
- The use of net proceeds from the issue of A shares is as follows: on 10 January 2001, the Company issued 78,000,000 A shares and the net proceeds were Rmb737.99 million. All of the proceeds were utilised in prospective projects. During the reporting period, there was no improper use of the proceeds.
- The considerations for the purchase and sales of the assets are reasonable and on an arm's length basis. There have been no transactions which harm the interests of shareholders or led to the loss of the Company's assets.
- The connected transactions are on an arm's length basis and do not involve any actions which may harm the interests of the Company.
- The domestic and international auditors issued unqualified audit reports respectively on the Company's accounts for the year ended 31 December 2002.

On behalf of the Supervisory Committee
Chen Canying
Chairman of the Supervisory Committee

Guangzhou, PRC
21 March 2003