

6. MAJOR EVENTS

6.1 CORPORATE GOVERNANCE

During the reporting period, the Company has amended the Company's Articles of Association, the Rules of Shareholders' Meetings and the Rules of Board Meetings, in accordance with the Notice of CSRC[2003]No.56 "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" issued by the Chinese Securities Regulatory Commission ("CSRC"). Accordingly, there is now no difference between internal documents of the Company with the notice.

6.2 EXECUTION OF 2003 PROFIT DISTRIBUTION SCHEME AND INCREASE IN SHARE CAPITAL FROM CAPITAL RESERVE OR ISSUE OF NEW SHARES OF THE COMPANY IN THE FIRST HALF OF THE YEAR

- (a) Pursuant to the resolutions passed at the 2003 Annual General Meeting ("AGM") which was held on 11th June 2004, the approved 2003 final dividend was RMB0.06 per share (including withholding tax for A shares), based on the total 810,900,000 shares as at 31st December 2003.
- (b) On 25th June 2004, the approved 2003 final dividend of RMB0.06 per share for the year 2003 was paid to the Company's H shares' shareholders whose name appeared on the register of the Company at the book close on 11th May 2004.
- (c) According to the announcement for 2003 final dividend disclosed in Shanghai Securities on 21st June 2004, the registration date for A shares shareholders for the final dividend was 24th June 2004, the closing date was 25th June 2004 and the dividend payment date was due on 6th July 2004.
- (d) During the reporting period, the Company did not propose any increase in share capital.

6.3 INTERIM DIVIDEND

The Board does not recommend the payment of a dividend for the six months ended 30th June 2004 nor propose any increase in share capital from the capitalisation of capital reserve.

6.4 DURING THE REPORTING PERIOD, THE GROUP HAS NO SIGNIFICANT LITIGATION OR ARBITRATION.**6.5 DURING THE REPORTING PERIOD, THE COMPANY HAD NO SIGNIFICANT PURCHASE AND DISPOSAL OF ASSETS (INCLUDING SUBSIDIARIES OR ASSOCIATED COMPANIES) NOR MERGER AND ACQUISITION ACTIVITIES.****6.6 CONNECTED TRANSACTIONS**

- (a) On 6th February 2004, the Company entered into a share transfer agreement with GPLH. According to the agreement, the Company acquired 51% of the equity interest of Guangzhou Guangyao Ying Bang Marketing Co., Ltd. (formerly known as Guangzhou Pharmaceutical Ying Bang Marketing Co., Ltd.) at the consideration of RMB3,888,713.99.
- (b) On 6th February 2004, the Company and GPLH entered into three agreements in relation to the leasing of offices and warehouses. In accordance with the agreements, the Company rented from GPLH the second and third floor of the rear portion of the office building located at No.45 Sha Mian North Street Guangzhou, and renewed the lease of the second floor of the front portion of the office building located at No.45 Sha Mian North Street, Guangzhou and other places.
- (c) The Group and GPLH sell to each other's pharmaceutical products, medical raw materials and various medical apparatus. These transactions are normal business transactions of the Group. In order to facilitate the production and operation of both parties, the Company and GPLH entered into an agreement which governs the trading transactions on 26th March 2004. According to the relevant rules and regulations of SSE and HKEx, the transactions constituted connected transactions. On 26th March 2004, the agreement was considered by Directors at the board meeting, and non-executive independent Directors have issued independent opinion. The above agreement was considered and passed by independent shareholders at the 2003 Annual General Meeting held on 11th June 2004. For details, please refer to the announcements published in Shanghai Securities, Hong Kong Economic Times and The Standard on 29th March 2004 and 14th June 2004.

According to the relevant rules and regulations of SSE and HKEx, transactions (a) and (b) were connected transactions. These transactions were approved by the independent non-executive Directors at the Board Meeting. Details of the connected transactions were disclosed in the announcement of the Company on Shanghai Securities, Hong Kong Economic Times and The Standard on 9th February 2004.

The above connected transactions have been in compliance with relevant laws and regulations.

Details of other related party transactions during the reporting period are disclosed in the notes to the interim financial report prepared in accordance with PRC Accounting Standards and Systems.

6.7 MAJOR CONTRACTS AND THEIR IMPLEMENTATION

- (a) During the reporting period, the Group did not hold on trust, sub-contract or lease assets of other companies or vice versa, which generated profit that accounted for 10% or more of the total profits for the period.
- (b) During the reporting period, the Group has not had any trusted fund management activities.

6.8 DURING THE REPORTING PERIOD, NONE OF THE COMPANY OR ANY OF ITS SHAREHOLDERS HOLDING SHARES OF 5% OR MORE HAD MADE ANY COMMITMENT, WHICH HAD SIGNIFICANT IMPACT ON THE COMPANY'S OPERATION AND THE STATE OF AFFAIRS.**6.9 PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries had redeemed, sold, purchased or cancelled any of the Company's shares during the reporting period.

6.10 BANK LOANS, OVERDRAFT AND OTHER LOANS

As at 30th June 2004, details of bank loans and overdrafts and other loans are set out on pages 50, 52, 53 and 73. Up to 30th June 2004, long-term bank loans increased by RMB20,000,000 and current portion of long-term liabilities decreased by RMB10,000,000. Short-term loans increased by RMB24,890,000 compared with that of 2003.

6.11 GEARING RATIO

Up to 30th June 2004, the Group's gearing ratio (total liabilities/total assets x 100%) was 46.68% (31st December 2003: 44.84%). There have been no material adverse changes in the gearing ratio of the Group compared with that of 2003.

6.12 COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the reporting period, the directors of the Company were not aware of any information that would reasonably indicate that the Company was not in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of HKEx.

6.13 STANDARD CODE OF THE COMPANY'S DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

During the reporting period, the Company had adopted a set of code of conduct which is not below the standards of the Model Code. After specific inquiring to all Directors, all the Company's Directors complied with Directors' securities transaction standard which was prescribed in the Model Code, and no exceptional case was noted.

6.14 THE AUDIT COMMITTEE OF THE BOARD IS CONSTITUTED BY THREE INDEPENDENT NON-EXECUTIVE DIRECTORS, ONE OF WHOM IS A QUALIFIED ACCOUNTANT. THE AUDIT COMMITTEE HAS REVIEWED THE ACCOUNTING POLICIES, ACCOUNTING REGULATIONS AND METHODS ADOPTED BY THE GROUP, AND DISCUSSED WITH MANAGEMENT ABOUT THE AUDIT, INTERNAL CONTROLS AND FINANCIAL REPORTING. THE AUDIT COMMITTEE HAS ALSO REVIEWED THE UNAUDITED INTERIM FINANCIAL REPORTS FOR THE SIX MONTHS ENDED 30TH JUNE 2004.

6.15 THE FINANCIAL REPORTS CONTAINED IN THIS INTERIM REPORT ARE UNAUDITED.

6.16 DURING THE REPORTING PERIOD, NO PUNISHMENT WAS IMPOSED ON THE COMPANY, THE BOARD OR ANY OF ITS DIRECTORS BY THE CSRC AND OTHER SUPERVISORY BODIES.

6.17 SAVE AS THOSE DISCLOSED ABOVE, THE GROUP DID NOT HAVE ANY OTHER SIGNIFICANT EVENTS DURING THE REPORTING PERIOD.

6.18 INDEX TO THE IMPORTANT DISCLOSED INFORMATION:

Disclosed information	Newspaper and the order	Date	Website and address
The resolutions passed at the 27th meeting of the second session of the board of directors, Announcement of resolutions passed at the sixteenth meeting of the second session of the supervisory committee, Connected transactions concerning the acquisition of interest in a subsidiary and lease of properties, Announcement of non-competition agreement and Notice of the first extraordinary general meeting of Guangzhou Pharmaceutical Company Limited in 2004	Page 16 on Shanghai Securities A45 on Hong Kong Economic Times Page B-12 ~ B-17 on The Standard	9th February 2004	www.sse.com.cn www.hkex.com.hk
Summary of annual report for 2003, Announcement of resolutions passed at the 29th meeting of the second session of the Board of Directors, Announcement of resolutions passed at the seventeenth meeting of the second session of the Supervisory Committee, Announcement of continuing connected transactions and Resolutions passed at the first extraordinary general meeting in 2004,	Page 11~12 on Shanghai Securities A52 - 55 on Hong Kong Economic Times N-14 ~ N-23 on The Standard	29th March 2004	www.sse.com.cn www.hkex.com.hk
Notice of the 2003 annual general meeting	Page 32 on "Shanghai Securities" A50 on "Hong Kong Economic Times" B-12 on "The Standard"	16th April 2004	www.sse.com.cn www.hkex.com.hk

Disclosed information	Newspaper and the order	Date	Website and address
Announcement on 2004 first quarterly report, Announcement of resolutions passed at the first meeting of the third session of the Board of directors, Announcement of resolutions passed at the first meeting of the third session of the supervisory committee	Page 44 on Shanghai Securities A59 on Hong Kong Economic Times N-20 ~ N-21 on "The Standard	29th April 2004	www.sse.com.cn www.hkex.com.hk
Resolutions passed at the 2003 annual general meeting	Page 19 on Shanghai Securities A50 on Hong Kong Economic Times B-12 on The Standard	14th June 2004	www.sse.com.cn www.hkex.com.hk
Announcement of implementation of 2003 final dividend	Page 16 on Shanghai Securities	21th June 2004	www.sse.com.cn www.hkex.com.hk
Announcement of resignation of director	Page 21 on Shanghai Securities A46 on Hong Kong Economic Times B39 on The Standard	24th June 2004	www.sse.com.cn www.hkex.com.hk
Announcement on profit warning for the first half of 2004	C8 on Shanghai Securities A49 on "Hong Kong Economic Times B-15 on The Standard	15th July 2004	www.sse.com.cn www.hkex.com.hk

6.19 OTHER MATTERS

6.19.1 Guarantees

During the reporting period, guarantees provided by the Company are set out as follows:

Guaranteed	Date (date of the signing of the agreement)	Amount involved RMB'000	Type of guarantee	Term of guarantee	Executed or not	Guarantee for connected parties or not
Guangzhou Pharmaceutical Corporation	6th May 2003 ~ 10th June 2004	405,000	Credit	1 year	No	No
Guangzhou Chinese Medicine Corporation	29th May 2003 ~ 19th April 2004	90,340	Credit	1 year	No	No
Guangzhou Pharmaceutical Import & Export Corporation	24th April 2003 ~ 8th June 2004	33,520	Credit	1 year	No	No
Guangzhou Huanye Pharmaceutical Co., Ltd.	31st March 2004	490	Credit	1 year	No	No
Total		529,350				

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 to any parties during the reporting period,.

6.19.2 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 fund occupied by the Company's controlling shareholder and its subsidiaries was as below:

Fund occupied by	Relationship with the Company	End of the period	Beginning of the period	Relevant items	Ending balance RMB'000	Beginning balance RMB'000	Accumulated debit transaction RMB'000	Accumulated credit transaction RMB'000	Manners	Reasons	Note
GPHL	Holding company	2004-6-30	2003-12-31	Other receivables	7,526.9	7,226.8	743.8	443.7	Prepayments	—	Prepaid rental
Guangzhou Qiao Guang Pharmaceutical Factory	Fellow subsidiary	2004-6-30	2003-12-31	Accounts receivable	15,780.4	5,572.5	25,072.8	14,864.9	Purchase	—	Production
Guangzhou Ming Xing Pharmaceutical Factory	Fellow subsidiary	2004-6-30	2003-12-31	Accounts receivable	284.3	288.4	1,391.6	1,395.7	Purchase	—	Production
Guangzhou Tian Xin Pharmaceutical Co., Ltd	Fellow subsidiary	2004-6-30	2003-12-31	Accounts receivable	3,829.0	3,140.0	10,738.4	10,049.4	Purchase	—	Production
Guangzhou He Ji Gong Pharmaceutical Factory	Fellow subsidiary	2004-6-30	2003-12-31	Accounts receivable	223.9	17.6	880.0	673.7	Purchase	—	Production
Guangzhou Guang Hua Pharmaceutical Co., Ltd	Fellow subsidiary	2004-6-30	2003-12-31	Accounts receivable	627.7	433.8	1,913.7	1,719.8	Purchase	—	Production
Guangzhou Wei Cai Factory	Fellow subsidiary	2004-6-30	2003-12-31	Accounts receivable	508.7	329.3	806.2	626.8	Purchase	—	Production
Guangzhou Hua Nan Medical Apparatus Co., Ltd	Fellow subsidiary	2004-6-30	2003-12-31	Other receivables	100.0	100.00	—	—	Current account	—	Daily transactions
Guangzhou Pharmaceutical Economic Development Company	Fellow subsidiary	2004-6-30	2003-12-31	Accounts receivable	—	25.8	—	25.8	Purchase	—	Sales
Po Lian Development Co., Ltd	Fellow subsidiary	2004-6-30	2003-12-31	Other receivables	6,794.5	8,221.6	—	1,427.1	Loan and advances	—	Daily transactions & operation funds
Guangzhou Zhong Fu Medical Co., Ltd	Associated company	2004-6-30	2003-12-31	Accounts receivable	—	187.6	—	187.6	Purchase	—	Production
				Other receivables	1.7	3.4	21.5	23.2	Current account	—	Daily transactions
Guangzhou Baiyunshan Pharmaceutical Factory	Fellow subsidiary	2004-6-30	2003-12-31	Accounts receivable	9,628.8	7,765.6	6,319.9	4,456.7	Purchase	—	Production
Guangzhou Baiyunshan Chinese Medicine Factory	Fellow subsidiary	2004-6-30	2003-12-31	Accounts receivable	1,010.6	851.9	4,890.5	4,731.8	Purchase	—	Production
Guangzhou Baiyunshan External Use Medicine Factory	Fellow subsidiary	2004-6-30	2003-12-31	Accounts receivable	13.8	—	412.9	399.1	Purchase	—	Production
Total				Other receivables	14,423.1	15,551.8	765.3	1,894			
				Accounts receivable	31,907.2	18,612.5	52,426.0	39,131.3			

6.19.3 Explanation and independent opinions of independent Directors in respect of accumulated and current external guarantees and illegal guarantee granted by the Company and implementation of regulation CSRC[2003]No.56

As the independent Directors of Guangzhou Pharmaceutical Company Limited (“the Company”), pursuant to the principle as stipulated in 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 an examination of policies towards the guarantees provided to the external parties by the Company and its subsidiaries (“the Group”) in fair and objective manner. The relevant explanation and opinion in respect of accumulated and current external guarantee, illegal guarantee and the implementation of regulation CSRC[2003]No.56 are as follows:

1. Explanation

- a. The Group strictly complied with relative legal regulations. We did not note that the Group had provided any guarantee to its controlling shareholder, other related parties with equity interest less than 50%, any non-corporation or person;
- b. The Company has amended the Company’s Articles of Association, in which there are clear prescripts on approval procedure, decision making and the right limit.
- c. Up to 30th June 2004, we did not note that the Group had provided any guarantee to third parties.

2. Independent opinions

- a. The flow of fund between the Group and the related parties is the normal operating flow of fund. And we did not note that the Group paid any salary, welfare, insurance, advertising and other expenses on behalf of related parties and did not note the Group ever bore cost and other expenditures on behalf of related parties.
- b. Other flow of fund between the Group and related parties is as below:
 - i) Receivable from GPLH of RMB7,526,900, including RMB5,172,000 lent to GPLH for its office building expansion. The amount will be settled by the rental charge, which has been disclosed separately, and the remaining is the housing reform receivable due from GPLH;
 - ii) Receivable from Po Lian of RMB6,794,500, of which RMB3,000,000 is the deposit of letter of credit paid by a subsidiary of the Company and RMB3,794,500 is the funds temporarily deposited in Po Lian;
 - iii) Receivable from Guangzhou Pharmaceutical Machinery Factory of RMB100,000, which was an amount temporarily funded by a subsidiary of the Company;
 - iv) Receivable from Guangzhou Zhong Fu Pharmaceutical Company Limited(“Zhong Fu”) of RMB1,700, which was the staff housing subsidy paid by a subsidiary of the Company on behalf of Zhong Fu.

3. We are not aware of the existence of any funds provided by the Group to related parties in the following manners:

- a) Financing and tenancy loan lent to related parties through banks and other non-bank financial institutions;
- b) Entrusting investment activities to related parties;
- c) Issue of trade acceptance for related parties without real transaction;
- d) Repay liabilities on behalf of related parties.