

## 6. MAJOR EVENTS

### 6.1 CORPORATE GOVERNANCE OF THE COMPANY

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

During the Reporting Period, the Company amended the Company's Articles of Association, the Rules of Shareholders' Meetings, the Rules of Board Meetings and the Rules of the Supervisory Committee in accordance with Certain Requirements on Strengthening the Protection of the Interests of Shareholders of the Public Shares, the Listing Rules of SSE, the Listing Rules of HKEX 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 at the 11th meeting of the 3rd Session of the Board of Directors held on 27 April 2005, and such resolutions were considered and approved at the 2004 Annual General Meeting.

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

### 6.2 EXECUTION OF PROFIT DISTRIBUTION SCHEME AND INCREASE IN SHARE CAPITAL FROM CAPITAL RESERVE OR ISSUE OF NEW SHARES OF THE COMPANY FOR 2004

- (1) Pursuant to the resolutions on profit and dividend distribution passed at the 2004 Annual General Meeting, which was held on 30 June 2005, the approved 2004 final dividend, in cash, to all shareholders of the Company was RMB0.25 (including withholding tax for A shares) for every 10 shares held, based on the total share capital of 810,900,000 shares at the end of 2004;
- (2) On 18 July 2005, the approved final dividend of RMB0.025 per share for the year 2004 was paid to the Company's H shares holders whose name appeared on the register of the Company as at 31 May 2005;
- (3) According to the announcement for 2004 final dividend published in Shanghai Securities News in the PRC on 13 July 2005, the registration date for A shares was 18 July 2005, the ex-dividend date was 19 July 2005 and the dividend payment date was 26 July 2005;
- (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 an interim dividend for the six months ended 30 June 2005 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

The Group, GPHL and its subsidiaries together with their respective associates sell to each other pharmaceutical products, medical raw materials, medical apparatus and packaging materials. These transactions are normal business transactions of the Group. In order to facilitate the production and operation of both parties, the Company and GPHL entered into the amended agreement for connected transactions in respect of purchases and sales on 27 April 2005. According to the respective listing rules of SSE and HKEX, the transactions constituted connected transactions. The agreement was considered at the 11th meeting of the 3rd Session of the Board of Directors held on 27 April 2005, and in respect of which, the Non-executive Independent Directors expressed independent opinion. The above connected transactions were considered and passed by the independent shareholders at the 2004 Annual General Meeting held on 30 June 2005.

For details, please refer to the announcements published in Shanghai Securities News in the PRC, Hong Kong Economic Times and The Standard on 28 April 2005, 1 July 2005 and 4 July 2005 respectively.

The procedures for the above connected transactions have been made in strict compliance with 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 report prepared in accordance with PRC Accounting Standards and Systems.

## **6.7 MAJOR CONTRACTS AND THEIR IMPLEMENTATION**

- (1) During the Reporting Period, the Company 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.
- (2) During the Reporting Period, the Company has not 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 RESULTS AND THE STATE OF AFFAIRS.**

## **6.9 BANK LOANS, OVERDRAFT AND OTHER LOANS**

As at 30 June 2005, long-term bank loans of the Group decreased by RMB27,680,000, long-term liabilities due within one year increased by RMB51,820,000 and short-term loans decreased by RMB31,402,000 compared with that of the beginning of the period.

## **6.10 GEARING RATIO**

Up to 30 June 2005, the Group's gearing ratio (total liabilities/total assets x 100%) was 49.04% (31 December 2004: 49.13%). There have been no material adverse changes in the gearing ratio of the Group as compared with that of 2004.

## **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 of HKEX (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 was made.

## **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 a standard for securities transactions entered into by Directors and Supervisors. After specific enquiries 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 standard for transactions made by Directors' as set out in the above code during the Reporting Period.

## **6.13 THE AUDIT COMMITTEE OF THE BOARD IS CONSTITUTED BY THREE INDEPENDENT NON-EXECUTIVE DIRECTORS, ONE OF WHOM IS A QUALIFIED ACCOUNTANT. THE AUDIT COMMITTEE OF THE COMPANY HAS REVIEWED THE ACCOUNTING POLICIES, ACCOUNTING REGULATIONS AND STANDARDS 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 FINANCIAL REPORTS FOR THE SIX MONTHS ENDED 30 JUNE 2005.**

## **6.14 THE FINANCIAL REPORTS FOR THE REPORTING PERIOD ARE UNAUDITED.**

## **6.15 DURING THE REPORTING PERIOD, NO INVESTIGATION, PUNISHMENT, COMMENTS AND PUBLIC REPRIMAND WERE MADE AGAINST AND IMPOSED ON THE COMPANY, THE BOARD AND DIRECTORS BY THE CSRC AND OTHER SUPERVISORY BODIES.**

## **6.16 THE COMPANY DID NOT HAVE ANY OTHER SIGNIFICANT EVENTS DURING THE REPORTING PERIOD.**

## 6.17 INDEX TO THE IMPORTANT DISCLOSED INFORMATION DURING THE REPORTING PERIOD

Disclosed information	Newspaper and the order	Date	Website and address
Announcement of Guangzhou Pharmaceutical Company Limited	C16 on Shanghai Securities News A49 on Hong Kong Economic Times B34 on The Standard	14 April 2005	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
Announcement of Guangzhou Pharmaceutical Company Limited	A65 on Hong Kong Economic Times B34 on The Standard	26 April 2005	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
Summary of annual report for 2004 Announcement on 2005 first quarterly report Announcement of resolutions passed at the 11th meeting of the 3rd session of the Board of Directors Announcement of resolutions passed at the 4th meeting of the 3rd session of the Supervisory Committee Announcement of resignation of director Announcement on profit forecast for the first half of 2005 Announcement of continuing connected transactions of Guangzhou Pharmaceutical Company Limited	C65 ~ 66 on Shanghai Securities News A52 ~ 56 on Hong Kong Economic Times N2 ~ 16 on The Standard	28 April 2005	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
Notice of the 2004 Annual General Meeting	C12 on Shanghai Securities News A50 ~ 51 on Hong Kong Economic Times N14 ~ 17 on The Standard	12 May 2005	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
Announcement of Guangzhou Pharmaceutical Company Limited	A50 on Hong Kong Economic Times B38 on The Standard	17 May 2005	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
Announcement of resolutions passed at the 2004 Annual General Meeting Announcement of resolutions passed at the 12th meeting of the 3rd session of the Board of Directors	A20 on Shanghai Securities News A47 on Hong Kong Economic Times B22 on The Standard	1 July 2005 4 July 2005	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
Announcement of implementation of 2004 final dividend	A16 on Shanghai Securities News	24 June 2005	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>

## 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 Corporation	Borrowings for working capital	415,000	Half to one year
Chinese Medicine Corporation	Borrowings for working capital	91,000	One year
Guangzhou Pharmaceutical Import & Export Corporation	Borrowings for working capital	10,000	One year
<b>Total</b>		<u>516,000</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 to any parties 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 fund occupied by the Company's controlling shareholder and its subsidiaries was as below:**

Capital occupied by	Relationship with the Company	Correspondent items in the accounting statement		Amount at the end of the period		Amount at the beginning of the period		Accumulated debit transactions		Accumulated credit transactions		Manners	Reasons
				RMB'000		RMB'000		RMB'000		RMB'000			
GPHL	Parent Company	Other Receivables	5,918	—	6,312	—	93	—	487	—	Prepayments and current accounts	Prepaid rents and ordinary current accounts	
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts Receivable	—	17,498	—	17,232	—	27,804	—	27,538	Purchasing	Production	
Guangzhou Mingxing Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts Receivable	—	2,102	—	739	—	6,018	—	4,655	Purchasing	Production	
Guangzhou Tianxin Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts Receivable	—	3,436	—	5,481	—	12,593	—	14,638	Purchasing	Production	
Guangzhou Hejigong Pharmaceutical Co., Ltd.	Fellow subsidiary	Other Receivables	6	262	25	432	—	856	19	1,026	Purchasing	Production	
Guangzhou Guanghua Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts Receivable	—	2,026	—	1,573	—	24,703	—	24,250	Purchasing	Production	
Guangzhou Hua Nan Medical Apparatus Co., Ltd.	Fellow subsidiary	Other Receivables	100	—	100	—	—	—	—	—	Purchasing	Production	
Po Lian Development Company Limited	Fellow subsidiary	Other Receivables	5,828	—	14,854	—	—	—	9,027	—	Current accounts, purchasing	Ordinary current accounts	
Guangzhou Pharmaceutical Industrial Institute	Fellow subsidiary	Accounts Receivable	—	2	—	—	—	6	—	4	Purchasing	Production	
Guangzhou Baiyunshan HW Chinese Medicine Co., Ltd.	Fellow subsidiary	Accounts Receivable	—	4,325	—	1,154	—	11,222	—	8,051	Purchasing	Production	
Guangzhou Baiyunshan Pharmaceutical Factory	Fellow subsidiary	Accounts Receivable	—	2,559	—	1,753	—	12,003	—	11,197	Purchasing	Production	
Guangzhou Baiyunshan Chemistry Medicine Factory	Fellow subsidiary	Accounts Receivable	—	4,040	—	423	—	15,936	—	12,319	Purchasing	Production	
Guangzhou Baiyunshan External Use Medicine Factory	Fellow subsidiary	Accounts Receivable	—	845	—	—	—	2,220	—	1,376	Purchasing	Production	
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	Jointly controlled entity (non-consolidated business)	Accounts Receivable	—	—	—	—	—	7,219	—	7,219	Purchasing	Production	
Total			11,852	37,095	21,292	28,786	93	120,582	9,533	112,273			

**6.18.3 Explanation and independent opinions of Independent Directors in respect of accumulated and current external guarantees and illegal guarantees 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 principles 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 guarantees and the implementation of regulation CSRC [2003] No.56 are as follows:

**Explanation**

- (1) The Group strictly complied with relative laws and 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;
- (2) 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;
- (3) Up to 30 June 2005, we did not note that the Group had provided any guarantee to third parties.

**Independent opinions**

- (1) 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.
- (2) The conditions of other flows of fund between the Group and the related parties: (a) accounts payable by GPLH amounting to RMB5,918,000, in which RMB4,620,000 were prepayments payable to GPLH by the Company, being offset by rents and were disclosed individually. The remaining balances were property improvement fees payable to the Company by GPLH; (b) RMB5,828,000 payable by Po Lian Development Co., Ltd (“Po Lian”), in which RMB4,499,000 were amounts collected from Fugao Pharmaceutical International Co., Ltd by Po Lian on behalf of the Group, and RMB1,329,000 were amounts temporarily deposited in such company; and (c) the amount of RMB100,000 repayable by Guangzhou Hua Nan Medical Apparatus Co., Ltd was the temporary loans from the Company’s subsidiaries to such company.
- (3) We are not aware of the existence of any funds provided directly or indirectly 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; and
  - d. Repay liabilities on behalf of related parties.

**7. FINANCIAL REPORT’S**

- (1) The financial report prepared in accordance with PRC Accounting Standards and Systems is set out on pages 22 to 34.
- (2) Notes to the Accounting Statements prepared in accordance with PRC accounting standards and systems.
- (3) Condensed consolidated financial information prepared in accordance with Hong Kong Accounting Standard 34 is set out on pages 70 to 94.