

Report of the Supervisory Committee

To all the shareholders:

On behalf of the Supervisory Committee of the Company (the "Supervisory Committee"), I hereby report to you, the duties performed by the Supervisory Committee during the year ended 31 December 2005 in accordance with the Company's Articles of Association.

I. MEETINGS OF THE SUPERVISORY COMMITTEE HELD DURING THE YEAR

During the Year, three meetings were held.

Session and number of meeting	Date of meeting	Content of resolutions	Newspapers for publication of resolutions and information disclosure	Dates for publication of resolutions and information disclosure
4th meeting of the Third Session	27 April 2005	The following resolutions were reviewed and passed: report of the Supervisory Committee for the year 2004, financial report of the Company for the year 2004, inventory impairment provision proposed by Guangzhou Chinese Medicine Corporation (the Company's subsidiary), revised Continuing Connected Transactions' Agreement and the transactions contemplated thereunder, amendments to the Articles of Association of the Company, amendments to the Rules of Procedures for the Supervisory Committee of the Company, 1st quarterly report of 2005 of the Company and proposal of convening 2004 annual general meeting.	Shanghai Securities in the PRC, Hong Kong Economic Times and The Standard in Hong Kong	28 April 2005
5th meeting of the Third Session	12 August 2005	Interim report 2005 of the Company was considered and passed.	Shanghai Securities in the PRC, Hong Kong Economic Times and The Standard in Hong Kong	15 August 2005
6th meeting of the Third Session	27 October 2005	3rd quarterly report of 2005 of the Company was considered and passed	Shanghai Securities in the PRC, Hong Kong Economic Times and The Standard in Hong Kong	28 October 2005

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II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS

1. The Company's operations during the Reporting Period

During the Reporting Period, the Supervisory Committee has monitored the procedures for convening Board meetings and shareholders' meetings and the resolutions proposed to be considered thereat, as well as the execution by the Board of the resolutions passed at the shareholders' meetings and has no dissenting view on any report and proposal submitted by the Board at shareholders' meeting. The Supervisory Committee considers that during the Reporting Period the operation decisions made by the Company are in compliance with the Company Law, the Securities Law, the respective Listing Rules governing the securities exchanges in PRC and in Hong Kong, the Articles of Association and other laws and regulations, and the Company has executed the resolutions of the shareholders' meetings of the Company diligently, continued to enhance the internal management and internal control systems of the Company and established a good internal management system. The Company's Directors and Senior Management have not committed any acts in breach of the 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's interests.

2. The supervision of the Company's financial condition

The Supervisory Committee has carefully reviewed the financial statements and other financial information of the Company during the Reporting Period, and considers that the Company's financial statements are clear, and the auditing and financial management are in line with relevant regulations. The 2005 auditors' reports issued by the domestic and international auditors was in line with their opinion that the accounts of the Group and the Company for the year ended 31 December 2005 exhibited a true and view of the state of the Company as at 31 December 2005 and the result of the Group for the year then ended. The domestic and international auditors issued unqualified audit reports respectively on the Group's and the Company's accounts for the year ended 31 December 2005.

3. Use of proceeds raised from the issue of A shares

During the Reporting Period, the use of the proceeds from the issue of A shares was in line with the undertakings made in the prospectus for the issue of A shares. There was no improper use of the proceeds.

4. Purchases and sales of assets of the Company

During the Reporting Period, the consideration for the purchases and sales of assets are reasonable and arrived at on an arm's length basis. There has been no insider dealing transactions which would harm the interests of shareholders or cause loss of the Company's assets.

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II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS *(continued)*

5. Connected transactions

During the Reporting Period, the Company's connected transactions mainly include: Agreement in relation to the Sales and Purchase Connected Transactions (as amended) entered into between the Company and GPLH which governs the daily purchases and sales between both parties.

The above connected transactions are on an arm's length basis and do not involve any actions which may adversely affect the interests of the Company and its shareholders.

On behalf of the Supervisory Committee
Chen Canying
Chairman

Guangzhou, the PRC, 31 March 2006