



東北虎藥業股份有限公司

NORTHEAST TIGER PHARMACEUTICAL CO., LTD.

(A joint stock limited company incorporated in the People's Republic of China)

Annual Report 2001

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Xu Zhe (*Chairman*)

Du Li Hua (*Deputy Chairman*)

Xu Dao Tian (*Deputy Chairman & General Manager*)

Liu Xiao Hong

Leng Zhan Ren

INDEPENDENT NON-EXECUTIVE DIRECTORS

Liu Jin

Niu Shu Min

SUPERVISORS

Zhang Ya Bin

Chen Lin Bo

Yin Hong

QUALIFIED ACCOUNTANT

Lam Kai Yeung, ACCA, AHKSA

COMPANY SECRETARY

Lam Kai Yeung, ACCA, AHKSA

AUDIT COMMITTEE

Liu Jin

Niu Shu Min

COMPLIANCE OFFICER

Du Li Hua

AUTHORIZED REPRESENTATIVES

Liu Xiao Hong

Leng Zhan Ren

GEM STOCK CODE

8197

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Lam Kai Yeung

AUDITORS

Arthur Andersen & Co

SPONSOR

First Shanghai Capital Limited

LEGAL ADVISORS

Kwok & Yih

(In association with Andersen Legal)

PRINCIPAL BANKER

China Construction Bank

Jilin Railway Branch

HONG KONG BRANCH SHARE REGISTRATION AND TRANSFER OFFICE

Central Registration Hong Kong Limited

19th Floor

Hopewell Centre

183 Queen's Road East

Hong Kong

REGISTERED OFFICE

No.13, No. 16 Building

District C

Hengshan Road

Jiangnan Avenue

Jilin Hi-Tech Development Zone

Jilin City

Jilin Province

PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

37th Floor Gloucester Tower

The Landmark, Central

Hong Kong



CHAIRMAN'S STATEMENT

I am pleased to present to our shareholders the first annual report of Northeast Tiger Pharmaceutical Co. Ltd ("the Company") for the year ended 31 December 2001 since its listing on GEM on 28 February 2002.

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 30 June 2000 with the approval of the People's Government of Jilin Province.

The Company is principally engaged in the manufacture and sale of Chinese medicine under the brand name of 東北虎 ("Northeast Tiger") in the PRC as well as conducting pharmaceutical research and development. The forms of products produced and sold by the Company include small-volume injections, granules, tablets, capsules and guttate pills. Currently, the Company possesses the production rights of 101 types of medicine, which were mostly acquired through the business combination with Jilin Northeast Tiger Drugs Company Limited ("NT Drugs"). The Company had obtained the production rights of such 101 types of Chinese medicine from the Jilin Drugs Administration ("JDA"). Currently, the Company is producing and selling 12 types of its own medicine products. Among which, Lu Lu Tong Injection , Shi Long Blood Clean Granule, Pulse-beat Invigorating Granules and Xin Fang Bi Yan Capsule are the Company's principal products. The principal usage of these products are as follows:

Product	Treatment
Lu Lu Tong Injection	treating circulatory occlusion
Pulse-beat Invigorating Granules	treating circulatory occlusion
Shi Long Blood Clean Granules	treating slight and moderate hemorrhage stroke
Xin Fang Bi Yan Capsule	treating chronic rhinitis and paranasal sinusitis

During year 2001, the Company had established an extensive sales and distribution network in the PRC. Through its sales and marketing network and the efforts of its full-time sales and marketing staff, the markets for the Company's products cover many cities in 28 provinces, independent municipalities and autonomous regions in the PRC. The customers of the Company are mainly pharmaceutical companies.

Capitalizing on its extensive sales and distribution network, the Company is also engaged in the distribution of general medicine of other brands produced by other pharmaceutical companies in the PRC. As at 31 December 2001, there were approximately 180 types of medicine distributed by the Company.

CHAIRMAN'S STATEMENT

On 28 February 2002, the Company's H shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The share offer through placing in Hong Kong in February 2002 received a good response from the investment community. The placing of 180,000,000 H shares at the price of HK\$0.26 each was oversubscribed by 11 times, resulting in the over-allotment option being exercised in full. The net proceeds from the placing amounted to over HK\$42 million.

During the year, the Company has implemented strict cost-effective and quality control policies on production, the Company has achieved substantial growth in revenue and net profit. Profit before taxation amounted to approximately RMB27,027,000, turnover amounted to approximately RMB84,513,000 and net profit amounted to approximately RMB22,030,000 for the year ended 31 December 2001, representing an increase of approximately 21.44%, approximately 0.10% and approximately 0.44% respectively as compared with the same period in the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The forms of products manufactured and sold by the Company include small-volume injections, granules, tablets, capsules and guttate pills. Currently, the Company possesses the production rights of 101 types of medicines, which were mostly acquired through a business combination. As required by the Drug Administration Law of the PRC, all drugs must undergo clinical trial before commercial production. The 101 types of medicine owned by the Company have all completed clinical trial. The Company has obtained the production rights of these medicine from the Jilin Drug Administration ("JDA"). The Company has also obtained all the relevant approvals and permits for the production and distribution of medicines in the PRC. These approvals and permits include the business licence, the Pharmaceutical Production Enterprise Permit, the Pharmaceutical Trading Enterprise Permit and other relevant approvals. Currently, the Company is producing and selling 12 types of its own medicine products, two of which are under trial production. The following summarizes the four principal products of the Company.

Products	Treatment	Means of Development
Lu Lu Tong Injection	For treating circulatory occlusion	Production technology was acquired by the Company through the business combination with Jilin Northeast Tiger Drugs Company Limited ("NT Drugs") on 6 March 2000. The transfer of production right was approved by the JDA.

CHAIRMAN'S STATEMENT

Pulse-beat Invigorating Granules	For treating circulatory occlusion	Production technology was acquired by the Company through the business combination with NT Drugs on 6 March 2000. The transfer of production right was approved by the JDA.
Shi Long Blood Clean	For treating slight and moderate hemorrhage stroke	Production technology was acquired by the Company through the business combination with NT Drugs on 6 March 2000. The transfer of production right was approved by the JDA and was subject to the final approval from the State Drug Administration ("SDA")
Xin Fang Bi Yan Capsule	For treating chronic rhinitis and paranasal sinusitis	Production technology was acquired by the Company through the business combination with NT Drugs on 6 March 2000. The transfer of production right was approved by the JDA.

Note: Save for Shi Long Blood Clean Granules, the transfer of the production rights of all other pharmaceutical products owned by the Company is subject to the approval from the JDA only. As Shi Long Blood Clean Granules is classified as a new Chinese medicine, the transfer of production right is subject to the preliminary approval from the JDA and final approval from the SDA.

Markets

During the year 2001, all the Company's products were sold in the PRC only. The Company has established an extensive sales and distribution network in the PRC. Through the efforts of its 180 full-time sales and marketing staff, the Company possesses an extensive sales network for its products covering many cities in 28 provinces, independent municipalities and autonomous regions in the PRC.

CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

During the year, the Company has maintained a stable growth in its turnover. Turnover increased from approximately RMB84,431,000 in 2000 to approximately RMB84,513,000 in 2001, representing approximately 0.1% increase. The contributing factor to these increase was due to our focus on marketing self-produced products, particularly Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsule.

The gross profit margin had been significantly improved from approximately 47.1% in 2000 to approximately 57.3% in 2001. This was due to the discontinuation of selling non-profit making general medicines of other brands, the launching of Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsule which were of higher profit margin and the maintenance of high selling price of Lu Lu Tong Injection, the Company's key product.

Given the increase of gross profit margin, the Company's profit before tax noted a 21.4% increase, which amounted to approximately RMB27,027,000 in 2001. As this was the first taxable year for the Company, the resulting net profit for the year was just slightly higher than the prior year.

The increase of accounts receivable from approximately RMB37,324,000 to approximately RMB41,782,000 with relatively stable sales indicated that the collection of accounts receivable has tended to be slower. The Directors considered that the increase in the average accounts receivable turnover period was attributable to a longer credit period offered to active large customers in order to enhance continued business relationship with these customers. Nevertheless, the Company had provided bad debt provision based on the aging analysis and subsequent settlement of the accounts receivable. As of 31 December 2001, approximately RMB3,885,000 was charged as provision for bad debt so as to cover the credit risk exposures resulting from the increase in accounts receivable balances. The write-off of obsolete inventories represented write-off against certain raw materials which were of no future use as considered by the Company's management.

FORWARD STRATEGY

The Directors believe that the Chinese pharmaceutical industry has strong prospect for sustained development in the PRC. In order to capture this business opportunity, the Company planned to adopt the following business strategies:

Establishment of a new GMP compliant plant

In order to expand and enhance the Company's production capacity and to further strengthen its competitive advantages, the Company intends to invest approximately HK\$28.0 million for the establishment of a new GMP compliant plant which will initially house one production line mainly for producing Shi Long Blood Clean Granules, a new Chinese medicine registered under State category 3. The Directors expect that the relevant GMP certificate for such facilities will be obtained by the end of 2003. Of the proposed investment of approximately HK\$28.0 million, approximately HK\$8.9 million will be used for construction planning, approximately HK\$11.1 million will be used for the procurement of facilities and approximately HK\$8.0 million will be used for the procurement of raw materials and the payment of overheads for the production of Shi Long Blood Clean Granules. Approval for this project has been granted by the Jilin Economic and planning Committee in 2000. In March 2001, a subsidy of approximately RMB0.90 million (HK\$0.84 million) was granted by the Central Administration of Small and Medium Enterprises Technology and Innovation Fund. Up to the 31 December 2001, the company received a subsidy of approximately RMB0.63 million (HK\$0.59 million) and the remaining balance will be received in August 2002.

Expansion of sales team and network

In order to further expand its market in the PRC and extend its business to the Hong Kong market, the Company plans to invest approximately HK\$2.0 million to expand its sales team and set up sales office in Hong Kong for promoting the Company's products.

CHAIRMAN'S STATEMENT

Research and development of new products

In order to enhance its competitive advantages, the Company will continuously place great effort on research and development of a comprehensive range of pharmaceutical products. The Company plans to invest approximately HK\$6.0 million in the development and production of the following medicines, assuming that all necessary new medicine certificates can be obtained in time.

Xie Sha Tong Infusion Fluid

(to be registered as a new Chinese medicine under State category 2)

Primary ingredient: Saponin of Radix Notoginseng

Functions: Facilitates blood circulation, treats stroke and stasis, and the after effects of cerebrovascular diseases.

Investment: Approximately HK\$1.4 million

Fu Fang Ge Gen Powder Injection

(to be registered as a new Chinese medicine under State category 2)

Primary ingredient: Puerarin

Functions: Facilitates blood circulation, strengthen heart function and removes stasis, and treats stroke and acute dermic hematoma.

Investment: Approximately HK\$2.3 million

Fu Fang Ge Gen Infusion Fluid

(to be registered as a new Chinese medicine under State category 2)

Primary ingredient: Puerarin

Functions: Facilitates blood circulation, strengthen heart function and removes stasis, and treats of stroke and acute dermic hematoma.

Investment: Approximately HK\$2.3 million

Expansion of research and development capacity

As at the 31 December 2001, the research and development centre of the Company had 42 research and development professionals and had a range of research and development facilities. In order to increase its research and development capability, the Company plans to invest approximately HK\$1.6 million to acquire advanced research equipment and approximately HK\$0.4 million to recruit researchers.

Establishment of a website

The Directors consider that the Internet is potentially a powerful channel for marketing the Company's products. Currently, the Company is planning to establish an Internet website aiming to promote its corporate image and strengthen its products' brand name. The Company intends to invest approximately HK\$2.0 million on the establishment and development of its own website. The Company will comply with the relevant PRC regulations for the establishment of the website.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2001, the Company had outstanding borrowings of RMB\$31,020,000 (2000: nil), comprising long-term loans of RMB8,020,000 (2000: nil), short-term bank loans of RMB23,000,000 (2000: nil), there was no other loans existed during the year.

Long-term loans

As of 31 December 2001, an interest-free, unsecured long term loan of RMB8,000,000 was granted by China Hi-Tech Investment Company (the "Lender"), an unrelated company which was administratively supervised by the State Economic Development Committee, for the purpose of developing Yong Chong Cao Jun Power and Yong Chong Jun Power Capsule. According to the agreement, upon the completion of the development project, the Company can repay the loan by cash, or the Company can repay the loan from the Lender by issuance of shares of the Company to the Lender. Pursuant to an undertaking dated 15 February 2002 signed by the Lender, the Lender agreed not to demand repayment of the loan until August 2003 and not request to conversion of the loan into equity interest of the Company.

Another long-term loan amounting to RMB20,000 from an independent third party is unsecured, bears interest rate at 4.8% per annum and is repayable in December 2002.

CHAIRMAN'S STATEMENT

Banking facilities

As of 31 December 2001, the Company had aggregate banking facilities of approximately RMB23,000,000 (2000: Nil) for overdrafts, loans and trade financing, which were all utilised. The bank loans bore interest at 6.435% per annum and were secured by buildings and machinery of the Company

The financial ratios

The Current Ratio, Acid Ratio and the Gearing Ratio (total debts over equity) of the Company as at 31 December 2001 were approximately 148% (2000: approximately 141%), approximately 62% (2000: approximately 70%) and approximately 32.9% (2000: nil) respectively. The decrease of acid ratio and increase in gearing ratio in current year were mainly due to increase of short term bank loans and deposit for machinery acquisition.

The Directors are of the opinion that, taking into account the financial resources available to the Company, including internally generated funds, the available banking facilities and the net proceeds of the placing of the Company's H Shares, the Company has sufficient working capital for its present requirements.

Treasury policies

With the focus on risk management, the Company adopts a conservative approach towards its treasury policies in order to monitor its credit risk and liquidity risk. Financial assets of the Company include cash, inventories, accounts receivables, prepayments and other current assets. Financial liabilities of the Company include accruals and other payables. To reduce exposure to credit risk, the Company closely monitors the outstanding balance owed by the customers, follows up each debtor overdue more than 120 days and enforces collection of the outstanding balances through salesmen. To manage liquidity risk, the Company closely monitors its liquidity to ensure that the liquidity structure of the Company's assets, liabilities and commitments can meet its funding needs.

SIGNIFICANT INVESTMENTS

During the year, the Company has no any significant investment which need to disclose.

MERGERS AND ACQUISITIONS

During the year, the Company has not engaged in any mergers and acquisitions which need to disclose.

DISPOSAL OF MAJOR ASSETS

During the year, the Company has not disposed of any major assets or any of its subsidiaries and affiliated companies.

DIRECTORS AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of emoluments paid to the Directors are as follows:

	2001 RMB'000	2000 <i>RMB'000</i>
Emoluments for executive directors		
- Salaries, allowances and benefits in kind	115	100
- Pension scheme contribution	29	25
Emoluments for non-executive directors		
- Salaries, allowances and benefits in kind	—	—
- Pension scheme contribution	—	—
	144	125

Analysis of emoluments of the directors by number of individuals and emolument range is as follows:

	2001 Number	2000 Number
Nil -RMB1,070,000 (equivalent to HK\$1,000,000)	7	7

The seven Directors received, respectively individual emoluments of approximately RMB36,000, RMB23,000, RMB32,000, RMB34,000, Nil, Nil and Nil for the year ended 31 December 2000 and approximately RMB39,000, RMB29,000, RMB37,000, RMB39,000, Nil, Nil and Nil for the year ended 31 December 2001.

No Director waived any emolument during the two years ended 31 December 2001.

CHAIRMAN'S STATEMENT

- (b) The details of emoluments of the five highest paid individuals in the Company (including Directors and employees) are as follows:

	2001	2000
Number of Directors	3	3
Number of employees	2	2
	5	5

Details of the emoluments of the five highest paid individuals (including Directors and employees) as mentioned in (b) above are as follows:

	2001 RMB'000	2000 RMB'000
Salaries , allowances and benefits in kind	156	123
Retirement benefits	39	31
	195	154

The emoluments of the five highest paid individuals are within the following bands:

	2001 Number	2000 Number
Nil - RMB1,070,000 (equivalent to HK\$1,000,000)	5	5

During the two years ended 31 December 2001, the Company has not paid any amount to the five highest paid individuals (including Directors and employees) or any other Directors as an inducement to join or upon joining the Company or as compensation for loss of office.

NET BOOK VALUE OF ASSETS PLEDGED

Buildings and machinery with net book value of approximately RMB26,037,000 were pledged as security for the Company's short-term bank loans.

FOREIGN EXCHANGE RISK

Since all of the income and expenses of the Company are denominated in Renminbi, so the Company is not subject to any material foreign exchange risk.

CONTINGENT LIABILITIES

As at 31 December 2001, the Company did not have any material contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the H shares of the Company commenced trading on GEM on 28 February 2002, the Company has not purchased, sold or redeemed any of the Company's listed securities.

DIVIDENDS

The Board does not recommend the payment of any final dividend for the year ended 31 December 2001 (2000: nil).

CAPITAL COMMITMENT

As of 31 December 2001, the Company had the following capital commitments in relation to purchases of fixed assets:

	RMB'000
Contracted	4,270
Authorised but not contracted for	—
	<hr/>
	4,270
	<hr/>

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC

28 March 2002

REVIEW OF BUSINESS OBJECTIVES

BUSINESS OBJECTIVE REVIEW

As this report covers activities up to 31 December 2001 only, save as disclosed above, all business objectives stated in the paragraph headed “Business strategies, implementation scheme and analysis of the investments on the Business Plan” under the section headed “Business Objectives” of the prospectus of the Company dated 20 February 2002 are still in progress and no further update is applicable.

The directors ("Directors") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") (formerly known as Jilin Northeast Tiger Pharmaceutical Company Limited and Jilin Northeast Tiger Pharmaceutical Research and Development Co., Ltd. ("NT Research")) are pleased to present their report with the audited financial statements of the Company for the year ended 31 December 2001.

COMPANY REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the PRC on 20 November 1998 as a privately owned company with limited liability. On 30 June 2000, the Company was converted into a joint stock company with limited liability in the PRC.

The Company's H shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 28 February 2002.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacture and sale of Chinese medicine products in the PRC as well as conducting pharmaceutical research and development.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2001, the aggregate amount of turnover attributable to the Company's five largest customers represented less than 16% of the Company's total turnover.

The aggregate purchases from the Company's largest supplier for the year ended 31 December 2001 represented approximately 86% of the Company's total purchases, and the aggregate purchases from the Company's five largest suppliers accounted for approximately 90% of the Company's total purchases for the year.

At no time during the year have the Directors and supervisors, their respective associates, or any shareholders, which to the knowledge of the Directors owned more than 5% of the Company's share capital, had a beneficial interest in the Company's five largest customers and five largest suppliers.

REPORT OF THE DIRECTORS

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2001 is set out on page 32 of the accompanying financial statements.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2001.

MOVEMENT OF RESERVES

Movement of reserves of the Company during the year is set out in Note 26 to the financial statements.

FIXED ASSETS

During the year, the Company acquired certain plant and equipment amounting to approximately RMB2,765,000 to expand its production capacity for the manufacturing of medicine products. Other details of the movement in fixed assets are set out in Note 13 to the financial statements.

SHARE CAPITAL

Details of movement in share capital of the Company are set out in Note 25 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company had not purchased, sold or redeemed any of the Company's listed shares up to the date of this report.

DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Executive Directors:

Xu Zhe (*Chairman*)

Xu Dao Tian (*Deputy Chairman & General Manager*)

Du Li Hua (*Deputy Chairman*)

Liu Xiao Hong

Leng Zhan Ren

Independent Non-executive Directors:

Liu Jin (appointed on 11 July 2001)

Niu Shu Min (appointed on 11 July 2001)

According to the articles of the Company's Articles of Association, all directors will retire every three years and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Non-executive directors are subject to retirement by rotation in accordance with the above clause.

DIRECTORS' SERVICE CONTRACTS

None of the directors and independent non-executive directors has a service contract with the Company which is not terminable within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN SHARES, WARRANTS AND SHARE OPTIONS

Up to the reporting date, the interests of the Directors and their respective associates in the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") as recorded in the register required to be kept by the Company under Section 29 of the SDI Ordinance, or required pursuant to Rules 5.40 to 5.49 of the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name	Number of Domestic Shares Personally Interested
Xu Zhe	183,482,440
Xu Dao Tian	150,644,480
Liu Xiao Hong	1,888,790
Zhang Ya Bin	1,618,960
Leng Zhan Ren	1,349,140
	<hr/>
	338,983,810
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Other than as disclosed above, none of the Directors, the chairman or their respective associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31 December 2001.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain Directors, the following shareholder had a beneficial interest of 10% or more in the issued share capital of the Company:

Name	Number of Domestic Shares held	Approximate
		percentage of shareholding (%)
Jilin Far East Pharmaceutical Holdings Company Limited	194,194,580	26.99

Save as disclosed above, the Company has no notice of any interests to be recorded under Section 16(1) of the SDI ordinance as of 31 December 2001.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company was a party and in which any Directors or members of the management of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures concerning the general management responsibilities of the Board as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since it was listed on GEM.

RETIREMENTS SCHEME, PERSONNEL AND PAYROLL

Particulars of the Retirement Scheme of the Company are set out in Note 9 to the accompanying financial statements.

FIXED ASSETS

Movements in fixed assets of the Company during the year are set out in Note 13 to the accompanying financial statements.

REPORT OF THE DIRECTORS

BANK BORROWINGS

Particulars of bank borrowings of the Company as of 31 December 2001 are set out in Note 28 to the accompanying financial statements.

CONNECTED PARTY TRANSACTIONS

The related party transactions disclosed in Note 3 to the accompanying financial statements constitute the connected transactions under Chapter 20 of the GEM Listing Rules.

SPONSOR'S INTERESTS

First Shanghai Capital Limited, its directors, employees or associates, did not have any interest in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company as at 31 December 2001 and 26 March 2002 respectively.

Pursuant to the sponsor's agreement entered into between First Shanghai Capital Limited and the Company dated 20 February 2002, First Shanghai Capital Limited has been appointed as a sponsor of the Company for a period up to 31 December 2004 and the Company shall pay an agreed amount of fee to First Shanghai Capital Limited for its provision of services.

CLOSURE OF H SHARE REGISTER

The H shares register of the Company will be closed from 19 April 2002 to 20 May 2002 (both days inclusive), during which no transfer of H shares will be effected.

AUDIT COMMITTEE

The Company has set up an audit committee according to "Guideline to set up an audit committee" compiled by the Hong Kong Society of Accountants. The committee comprises Ms. Liu Jin and Ms. Niu Shu Min, both of whom are independent non-executive directors of the Company.

During the year, the audit committee reviewed and commented on the Company's financial statements and provided advice and comments thereon to the Board.

REPORT OF THE DIRECTORS

On 28 March 2002, the audit committee held a meeting with external auditors and discussed certain financial matters and internal control matters of the Company during the year and commented on the Company's draft annual report for the year ended 31 December 2001.

AUDITORS

The financial statements have been audited by Arthur Andersen & Co. A resolution for the re-appointment of Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board of Directors

Xu Zhe

Chairman

Hong Kong, 28 March 2002

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders:

The Supervisory Committee (the “Supervisory Committee”) of Northeast Tiger Pharmaceutical Co. Ltd. (the “Company”) in compliance with the provisions of the Company Law of the People’s Republic of China (the “PRC Company Law”), the relevant laws and regulations of Hong Kong and the articles of association of the Company, under their fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders. During the year, the Supervisory Committee had provided reasonable suggestions and opinions to the Board of Directors in respect of the operation and development plans of the Company. It also strictly and effectively monitored and supervised the Company’s management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the articles of association of the Company, and in the interests of its shareholders. We have reviewed and agreed to the report of the Directors and the audited financial statements for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. Up till now, none of the Directors, general manager and senior management staff had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees. And none of them were found to be in breach of any laws and regulations or the articles of association of the Company. The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in year 2001 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

Zhang Ya Bin

Chairman

Jilin, the PRC

28 March 2002

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Xu Zhe, aged 31, is the chairman of the Company. Mr. Xu is responsible for the formulation and implementation of overall policy and strategy of the Company, as well as overseeing business development and sales and marketing activities of the Company. Mr. Xu was named twice as the “Excellent Sales Manager of the City of Jilin”, “Excellent Citizen of the City of Jilin” and “Model Worker of the City of Jilin”. He was a director of FE Holdings from 11 January 1999 to 10 April 2001. Mr. Xu also serves as a director of Hailaer and Yakeshi respectively since 1998. Mr. Xu graduated from Jilin College of Fine Arts in the PRC. He went to the United States in 1996 to study business administration and he returned to the PRC in 1998 and founded NT Research. With the focus on the research and development of advanced and new technologies, Mr. Xu has developed the Company into a leading player in its field with substantial competitive edge. Mr. Xu is the son of Mr. Xu Dao Tian and Ms. Du Li Hua.

Du Li Hua, aged 50, is the deputy chairman of the Company. Ms. Du graduated from Yanbian University majoring in economics and has been engaged in the pharmaceutical business since 1989. Ms. Du was once recognised as an “Young/Mid-aged Expert with Outstanding Contribution”, was granted “Special Sponsorship” by the State Council, awarded a “May 1 Labour Medal of the Country” by the National Trade Union, and recognised as the “Outstanding Business Manager of the Country”. In addition, she was also recognised as the “Outstanding Woman Entrepreneur of the Country”, “Model Worker of the Province of Jilin”, “Outstanding Woman of Jilin”, “Great Woman Red Flag Pioneer of the Province”, “Outstanding Entrepreneur in the Pharmaceutical Industry under the Eighth Five-year Plan” and “Premier Model Worker of the City of Jilin”. Ms. Du has also been a director of FE Holdings since 1992 and a director of Hailaer and Yakeshi respectively since 1998. She spent most of her time in FE Holdings and does not take active managerial role in the Company. She normally attends directors’ meetings and supervisors’ meeting of the Company. Ms. Du is the wife of Mr. Xu Dao Tian and is the mother of Mr. Xu Zhe.

Xu Dao Tian, aged 53, is the deputy chairman and general manager of the Company. Mr. Xu is responsible for the Company’s overall operational activities, production management and product research and development. Mr. Xu graduated from Jilin Teachers College majoring in Chemistry and is a senior economist. He successively won the titles of, among others, “Outstanding Sales Manager of the City of Jilin” and “Advanced Developer of the Production Systems for the City’s Pharmaceutical Industry”. He was also awarded first honour in the “Business Starter of the Year” contest in 1999 held by Jilin Municipal Chamber of Industry. Mr. Xu has substantial experience in production management and product development. He was a director of FE Holdings

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

from 11 January 1999 to 10 April 2001. Mr. Xu has also been a supervisor of FE Water since October 1996, an executive director of You Lian since April 1999 and a director of Hailaer since April 1998. Mr. Xu is the husband of Ms. Du Li Hua and is the father of Mr. Xu Zhe.

Liu Xiao Hong, aged 36, is a Director and deputy general manager of the Company. Mr. Liu is responsible for the Company's legal affairs, corporate finance activities and general administrative activities. Mr. Liu has also been a chairman of a board of supervisor of FE Holdings since 1994, Hailaer since 1998 and Yakeshi since 1998 respectively and an executive director of FE Water since 1996. He graduated from Jilin University of Television Broadcasting majoring in law and is a qualified lawyer in the PRC. Mr. Liu has professional knowledge in legal affairs and extensive experience in corporate management. Throughout the years since he joined the Company in November 1998, Mr. Liu has been involved in various corporate activities, such as merger and takeover, restructuring, corporate expansion, establishment of sales network and corporate management system, company reorganisation and corporate compliance.

Leng Zhan Ren, aged 37, is a Director and financial manager of the Company. Mr. Leng is responsible for the overall financial planning of the Company. Mr. Leng has also served as a supervisor of Hailaer and Yakeshi respectively since 1998. He graduated from Jilin College of Finance and Trade, majoring in accounting, and is a qualified accountant in the PRC. Mr. Leng has written a financial software "Accounting and Financial Statement System" which has been recognised by the provincial authority in Jilin and was launched in the market as a commercial software in 1999. The software has been awarded a second-class award by the Electronic Industry Department and a first-class award by the provincial authority.

Independent non-executive Directors

Liu Jin, aged 31, was appointed an independent non-executive director of the Company on 11 July 2001. She has obtained a bachelor degree of economics from Zhongnan University of Finance and Economics and has been a director of the China Division of ICEA Securities Limited since May 2001.

Niu Shu Min, aged 61, was appointed an independent non-executive director of the Company on 11 July 2001. After graduating from the chemistry faculty of Shenyang Medical Institute, she has worked as the deputy manager of Jilin Pharmaceutical Company, and the deputy director and thereafter director of the JDA until she retired in June 1999. She has over 4 years of experience in financing. Currently she is the vice president and general secretary of the Association of Pharmaceutical Quality Control of the PRC and a standing committee member of Jilin People's Political Consultative Conference.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Zhang Ya Bin, aged 38, is the chairman of the supervisory committee of the Company. Mr. Zhang joined the Company on 28 June 2000. He does not take any active role in the Company. He graduated from Northeast Normal University majoring in political studies and is currently a director of FE Holdings, Hailaer and Yakeshi respectively. Mr. Zhang was the assistant to the chairman of FE Holdings and a deputy secretary of the communist party committee of that company.

Chen Lin Bo, aged 45, is a supervisor of the Company who joined the Company on 28 June 2000. He is responsible for infrastructure project of the Company. He graduated from Changchun Traditional Chinese Medical College, majoring in medical studies. He had been the deputy manager of NT Drugs for years. He was also in charge of the infrastructure project of NT Pharmaceutical.

Yin Hong, aged 30, is a supervisor of the Company who joined the Company on 28 June 2000. He graduated from Changchun College of Taxation Studies majoring in accounting and is an accountant. Ms. Yin has served as the deputy financial controller of FE Holdings since 1992.

SENIOR MANAGEMENT

Gao Yue Ying, aged 30, is the secretary of the board of directors of the Company and the supervisor of the general manager's office. Ms. Gao graduated from Jilin College of Finance and Trade and is an assistant accountant. She joined the Company on 20 November 1998.

Lam Kai Yeung, aged 32, is the accountant and company secretary of the Company. Mr. Lam is a qualified accountant. He obtained the bachelor degree of economics from Xiamen University in 1990 and became a registered accountant in 2000. He is a member of the Association of Chartered Certified Accountant and has over five years of working experience in finance and auditing. He joined the Company in February 2002.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the first annual general meeting ("AGM") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") will be held at No.27-2, Nonglinjie Jilin, the PRC on 20 May 2002 at 9:00 a.m. for the following purposes:-

To consider and, if thought fit, pass the following matters as ordinary resolutions:

1. To receive and consider the audited financial statements of the Company and the Report of the Directors and the Auditors respectively for the year ended 31 December 2001;
2. To appoint auditors and to authorize the board of directors of the Company to fix their remuneration; and
3. To empower the executive directors of the Company to exercise the authority for the determination of incentive bonus to the relevant person of the Company as a motivation for the contribution of efforts to the development of the Company, if any.

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC

28 March 2002

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. Any shareholder entitled to attend and vote at the meeting mentioned above is entitled to appoint one or more proxies to attend and vote at the meeting on his or her behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company.
2. In order to be valid, the proxy form of holder of H shares and , if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Company's registered office not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.
3. Shareholders or their proxies shall produce their identity documents when attending the meeting.
4. The H share register of shareholders of the Company will be closed from 19 April 2002 to 20 May 2002 (both days inclusive), during which no transfer of shares will be registered. In order to ascertain the entitlement to attend at the above meeting, all properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's share registrar not later than 4:00 p.m. on 18 April 2002, for registration.
5. Shareholders who intend to attend the AGM should complete the enclosed reply slip for the AGM and return it to the Company's registered office not later than 29 April 2002.

AUDITORS' REPORT



ANDERSEN

Arthur Andersen & Co

21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

TO THE SHAREHOLDERS OF NORTHEAST TIGER PHARMACEUTICAL COMPANY LIMITED

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 30 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the company as of 31 December 2001, and of the profit and cash flows of the company for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO

Certified Public Accountants

Hong Kong,
28 March 2002

BALANCE SHEET

As of 31 December 2001

(Expressed in Renminbi Yuan)

	Notes	2001 RMB'000	2000 RMB'000
ASSETS			
Non-current assets			
Fixed assets, net	13	40,587	22,167
Construction-in-progress	14	—	3,931
Intangible assets, net	15	14,855	16,000
Prepayment for fixed assets		4,394	—
		59,836	42,098
Current assets			
Inventories, net	16	20,886	20,335
Accounts receivable, net	3,17	41,782	37,324
Prepayments and other current assets	18	17,424	2,931
Amounts due from related parties	3	37,030	16,836
Cash and cash equivalents	27(b)	12,733	2,568
		129,855	79,994
Total assets		189,691	122,092
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	25	53,965	53,965
Reserves	26	40,320	11,404
		94,285	65,369
Non-current liabilities			
Long-term loans	24	8,020	—
		8,020	—

BALANCE SHEET

As of 31 December 2001

(Expressed in Renminbi Yuan)

	Notes	2001 RMB'000	2000 RMB'000
Current liabilities			
Short-term bank loans	19	23,000	—
Accounts payable	3,20	7,937	4,439
Taxation payable	21	4,343	4,643
Advance payments from customers		5,314	1,772
Payable for intangible assets	15	4,790	9,190
Amounts due to related parties	3	5,519	5,276
Dividends payable	11	12,180	12,180
Accruals and other payables	22	23,815	18,902
Deferred tax liabilities	23	488	321
		87,386	56,723
Total equity and liabilities		189,691	122,092

Approved by the Board of Directors on 28 March 2002 and signed on behalf of the Board by:

Director

Director

INCOME STATEMENT

For the year ended 31 December 2001

(Expressed in Renminbi Yuan)

	Notes	2001 RMB'000	2000 RMB'000
Turnover	3, 4	84,513	84,431
Cost of sales	3	(36,078)	(44,694)
Gross profit		48,435	39,737
Other revenue	5	2,831	1,184
Distribution and selling expenses		(9,984)	(10,253)
General, administrative and other operating expenses		(13,940)	(8,443)
Operating profit		27,342	22,225
Interest income		45	38
Interest expense		(360)	(8)
Profit before tax	6	27,027	22,255
Taxation	10	(4,997)	(321)
Net profit for the year		22,030	21,934
Dividends	11	—	—
Earnings per share	12		
- Basic		RMB0.04	RMB0.06
- Diluted		N/A	N/A

STATEMENT OF RECOGNISED GAINS AND LOSSES

For the Year Ended 31 December 2001

(Expressed in Renminbi Yuan)

	Notes	2001 RMB'000	2000 RMB'000
Surplus on revaluation of properties	6, 13	6,886	—
Net gains not recognised in the income statement		6,886	—
Net profit for the year		22,030	21,934
Total recognised gains and losses		28,916	21,934

CASH FLOW STATEMENT

For the Year Ended 31 December 2001

(Expressed in Renminbi Yuan)

	<i>Note</i>	2001 RMB'000	2000 RMB'000
Net cash inflow from operating activities	27(a)	34,732	33,143
Returns on investments and servicing of finance			
Interest received		45	38
Interest paid		(360)	(8)
Net cash (outflow) inflow from returns on investments and servicing of finance		(315)	30
Taxation			
PRC tax paid		(5,130)	—
Prepaid PRC value - added tax		—	476
		(5,130)	476
Investing activities			
Cash received from NT Drugs		—	895
Prepayment for fixed assets		(11,394)	—
Purchases of fixed assets and construction-in-progress		(9,400)	(10,230)
Payments for intangible assets		(4,455)	(6,810)
Net cash outflow from investing activities		(25,249)	(16,145)
Net cash inflow before financing		4,038	17,504

CASH FLOW STATEMENT

For the Year Ended 31 December 2001

(Expressed in Renminbi Yuan)

	<i>Note</i>	2001 RMB'000	2000 <i>RMB'000</i>
Financing	27(c)		
Additional capital injection		—	2,669
New short-term bank loans		23,000	—
New long-term loans		8,020	—
Payment for expenses in relation to proposed placing of shares		(4,942)	—
Increase in amounts due from related parties		(20,194)	(20,878)
Increase in amounts due to related parties		243	—
Net cash inflow (outflow) from financing		6,127	(18,209)
Increase (decrease) in cash and cash equivalents		10,165	(705)
Cash and cash equivalents, beginning of year		2,568	3,273
Cash and cash equivalents, end of year		12,733	2,568

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

1 ORGANISATION AND OPERATIONS

Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") was incorporated in Mainland China on 20 November 1998 as a privately owned company with limited liability. Its principal activities were development and sale of medicines. On 11 February 2000, the Company acquired all the business, assets and liabilities of Jilin Northeast Tiger Drugs Company Limited ("NT Drugs") through the issuance of the Company's capital to the then shareholders of NT Drugs, and thereafter NT Drugs ceased its business operations and was dissolved. Since then, the principal activities of the Company have been changed to the development, manufacture and sale of chinese medicines. On 30 June 2000, the Company was converted into a joint stock company with limited liability in Mainland China.

2 PRINCIPAL ACCOUNTING POLICIES

a. Basis of presentation

The financial statements are prepared under the historical cost convention as modified by the revaluation of land and buildings, and in accordance with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA") and accounting principles generally accepted in Hong Kong.

b. Adoption of Statements of Standard Accounting Practice

Effective from 1 January 2001, the Company has adopted, for the first time, the following SSAPs issued by the HKSA:

SSAP9 (revised)	Event after the balance sheet date
SSAP14 (revised)	Leases
SSAP26	Segment reporting
SSAP28	Provisions, contingent liabilities and contingent assets
SSAP29	Intangible assets
SSAP31	Impairment of assets

The directors considered the adoption of the above new/revised SSAPs had no material effect on amounts reported in prior year.

2 PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

c. Turnover

Turnover represents the invoiced sales of medicines, net of discounts and returns, and after excluding value-added tax ("VAT").

d. Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Sales of goods

Revenue is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(ii) Interest income

Interest income from bank deposits recognised on a time proportion basis that takes into account the effective yield on the assets.

(iii) Subsidy income

Subsidy income is recognised upon granting of subsidy by the relevant authorities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

e. Taxation

The Company provides for taxation on the basis of its income for financial reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

f. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Company, and the cost of the asset can be measured reliably.

Internally generated intangible assets are charged against income in the period incurred except for development costs which comply with the following criteria:

- the product or process is clearly defined and the costs are separately identified and measured reliably;
- the technical feasibility of the product or process is demonstrated;
- the product or process will be sold or used in-house;
- a potential market exists for the product or process or its usefulness in the case of internal use is demonstrated; and
- adequate technical, financial and other resources required for completion of the product or process are available.

2 PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

f. Intangible assets *(Cont'd)*

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised on a straight-line basis over their estimated useful lives of 10 years. The amortisation period and the amortisation method are reviewed annually at each financial year end.

g. Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arranging borrowings.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use in which case they are capitalised as part of the cost of that asset.

h. Retirement scheme

The Company's contribution to retirement schemes are charged to the income statement in the period to which they related.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

i. Fixed assets and depreciation

Fixed assets, other than land and buildings, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of the fixed asset.

Land and buildings are stated at valuation. Independent valuations are performed periodically with the last valuation performed on 31 December 2001. In the intervening years, the directors review the carrying value of land and buildings and adjustment is made where in the directors' opinion there has been a material change in value.

Any increase in land and buildings valuation is credited to the property revaluation reserve; any decrease is first offset against an increase in earlier valuation in respect of the same property and is thereafter charged to the income statement.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost or valuation of each asset over its expected useful life. The expected useful lives are as follows:

Land use rights	50 years
Buildings	30-35 years
Machinery	5-11 years
Motor vehicles	8 years
Office equipment and others	5 years

The useful lives of assets and depreciation method are reviewed periodically.

2 PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

j. **Construction-in-progress**

Construction-in-progress represents plant and properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges during the construction period, to the extent these are regarded as an adjustment to interest costs. Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

k. **Cash and cash equivalents**

Cash represents cash on hand and deposits with banks which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

l. **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in first-out basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

m. Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

n. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of fixed and intangibles carried at cost and treated as a revaluation decrease for buildings that are carried at revalued amounts to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same building. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase.

o. Provisions

A provision is recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

2 PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

p. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

q. Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

r. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

3 RELATED PARTY TRANSACTIONS (Cont'd)

Particulars of significant transactions between the Company and related companies are summarised as follows:

(a) Major balances with related parties were as follows:

	31 December	
	2001	2000
	RMB'000	RMB'000
Balances from trading activities		
<i>With shareholder:</i>		
Amounts due from FE Holdings, the major shareholder		
- Included in accounts receivable of the Company	7,051	6,437
- Included in accounts receivable of the Company and was derived from the acquisition of Jilin Northeast Tiger Drugs Company Limited ("NT Drugs")	2,012	2,012
Amounts due to FE Holdings		
- Included in accounts payable	—	232
<i>With other related parties:</i>		
Amounts due from other related parties		
- Included in accounts receivable	2,224	1,863
Amounts due to other related parties		
- Included in accounts payable	95	263

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

3 RELATED PARTY TRANSACTIONS (Cont'd)

	31 December	
	2001	2000
	RMB'000	RMB'000
Balances from other activities		
<i>With shareholder:</i>		
Amounts due from FE Holdings	26,817	8,173
Amounts due to FE Holdings	610	369
<i>With other related parties:</i>		
Amounts due from other related parties		
- Hailaer City Yidaitianjiao Pharmaceutical Company Limited ("Hailaer"), a company directly owned by FE Holdings	5,635	5,037
- Yakeshi Northeast Tiger Pharmaceutical Company Limited ("Yakeshi"), an associate of FE Holdings	2,404	2,798
- Jilin City Far East Water Supply Company Limited ("FE Water"), a company directly owned by FE Holdings	474	508
- Xu Dao Tian, a director of the Company	320	320
- Xu Zhe, a director of the Company	1,380	—
Amounts due to other related parties		
- Hailaer	3,507	3,507
- Jilin You Lian Wei Shi Industrial Company Limited, ("You Lian") a company owned by Xu Dao Tian, the director	1,401	1,400
- FE Water	1	—

The amounts due from (to) related parties were unsecured, non-interest bearing and repayable on demand. Up to the date of approving the financial statements, approximately by RMB32,075,000 was settled.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

3 RELATED PARTY TRANSACTIONS (Cont'd)

- (b) The following is a summary of significant transactions carried out in the ordinary course of business between the Company and its related parties during the year ended 31 December 2001:

	2001 RMB'000	2000 RMB'000
Transactions with shareholder:		
Purchases from FE Holdings	36	588
Sales to FE Holdings:	5,653	6,629
Transactions with other related parties:		
Purchases from other related parties:		
- NT Drugs	—	4,297
- Hailaer	60	—
- Yakeshi	—	3,833
- You Lian	591	—
	651	8,130
Sales to other related parties:		
- Hailaer	309	338
- FE Water	—	38
	309	376

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

3 RELATED PARTY TRANSACTIONS (Cont'd)

In the opinion of the Company's Directors, the above related party transactions were carried out in the ordinary course of business of the Company.

Pursuant to the Implementation Notes to Medicine Price Administration in Jilin Province, the PRC, all pharmaceutical products that are marketed in the PRC are subject to price control. However, the Company could apply to the Price Bureau and Drug Administration of the relevant province for adjustment of the selling price. For the year ended 31 December 2001, sales to FE Holdings were derived from the sales of Yong Chong Cao Jun Powder (2000: Nil) and were not subject to price control. As the product was new and had not been formally launched in the market, the Company and FE Holdings determined the price through negotiation.

Details of the amount and the maximum balances of due from related parties are as follows:

Name	2001 RMB'000	2000 RMB'000	Maximum amount outstanding during the year
			RMB'000
FE Holdings	26,817	8,173	26,817
Haelaer	5,635	5,037	6,933
Yakeshi	2,404	2,798	2,798
FE Water	474	508	547
Xu Dao Tian	320	320	320
Xu Zhe	1,380	—	1,380

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

4 TURNOVER

Substantially all the turnover of the Company is attributable to the sales of medicines in Mainland China.

All of the Company's sales made in Mainland China are subject to VAT at a rate of 17% ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Company on purchases ("input VAT").

5 OTHER REVENUE

	2001 RMB'000	2000 RMB'000
Government subsidies	2,784	1,180
Others	47	4
	2,831	1,184

Pursuant to the agreements between the government authorities and the Company, the Company is entitled to receive subsidies for the research and development of new products. The grant of the subsidies is based on the progress of the research and development as stipulated in the agreements between the government authorities and the Company. Furthermore, according to prevailing rules and regulations in Mainland China, the Company should appropriate net profit of the same amount as the government subsidies to capital reserve when such subsidies are granted (see Note 26).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

6 PROFIT BEFORE TAXATION

Profit before taxation is determined after crediting and charging the following:

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Crediting:		
Interest income on bank deposits	45	38
Charging:		
Interest expense on long-term loan - repayable within one to five years	2	—
Interest expense on short-term bank loan	350	—
Cost of inventories	36,078	44,694
Staff costs (excluding directors)		
- Salaries and wages	2,983	1,875
- Provision for staff and workers' bonus and welfare fund	418	263
- Contributions to defined contribution pension plan	748	620
Directors' emoluments (see Note 8)	151	154
Write-off of obsolete inventories	135	—
Provision for doubtful receivables	3,885	2,123
Amortisation of technical know-how	1,200	—
Unrecognised loss on revaluation of fixed assets	188	—
Depreciation of fixed assets	1,609	853
Operating leases	70	70
Research and development expenses	826	176
Auditors' remuneration	477	80

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of RMB22,030,000 (2000 : RMB21,934,000) which has been dealt with in the accounts of the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

8 DIRECTORS AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of emoluments paid to directors of the Company are as follows:

	2001 RMB'000	2000 <i>RMB'000</i>
Emoluments for executive directors		
- Salaries, allowances and benefits in kind	115	100
- Pension scheme contribution	29	25
Emoluments for non-executive directors		
- Salaries, allowances and benefits in kind	—	—
- Pension scheme contribution	—	—
	144	125

Analysis of emoluments of the directors by number of individuals and emolument range is as follows:

	2001 Number	2000 <i>Number</i>
Nil - RMB1,070,000 (equivalent to HK\$1,000,000)	7	7

The seven directors received, respectively individual emoluments of approximately RMB36,000, RMB23,000, RMB32,000, RMB34,000, Nil, Nil and Nil for the year ended 31 December 2000 and approximately RMB39,000, RMB29,000, RMB37,000, RMB39,000, Nil, Nil and Nil for the year ended 31 December 2001.

No director waived any emolument during the two years ended 31 December 2001.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

8 DIRECTORS AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

- (b) The details of emoluments of the five highest paid individuals in the Company (including directors and employees) are as follows:

	2001	2000
Number of directors	3	3
Number of employees	2	2
	5	5

	2001 RMB'000	2000 RMB'000
Salaries, allowances and benefits in kind	156	123
Retirement benefits	39	31
	195	154

The emoluments of the five highest paid individuals are within the following bands:

	2001 Number	2000 Number
Nil - RMB1,070,000 (equivalent to HK\$1,000,000)	5	5

During the two years ended 31 December 2001, the Company has not paid any amount to the five highest paid individuals (including directors and employees) or any other directors as an inducement to join or upon joining the Company or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

9 RETIREMENT SCHEME

The Company participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. Each employee covered by these schemes is entitled, after retirement from the Company, to a pension equal to the basic salary of the employees as of their retirement dates. The local government authorities are responsible for the pension liabilities to these retired employees. The Company is required to make monthly contributions to the retirement scheme at a rate of 25% based on the eligible employee's salaries

The details of the pension contributions made by the Company, which have been dealt with in the income statement of the Company are as follows:

	2001 RMB'000	2000 <i>RMB'000</i>
Contributions to retirement scheme	748	620

10 TAXATION

Details of enterprise income tax for the two years are as follows:

	2001 RMB'000	2000 <i>RMB'000</i>
Mainland China enterprise income tax		
- Current income tax	4,830	—
- Deferred income tax	167	321
	4,997	321

The Company was established in the Jilin High-technology Development Zone, Mainland China (the "Zone"). It is subject to enterprise income tax at a rate of 15% and is entitled to full exemption from enterprise income tax in the first and second years of operations. Accordingly, the Company was exempt from enterprise income tax for the year ended 31 December 2000. In 2001, the applicable enterprise income tax rate is 15%.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

11 DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2001 (2000: Nil).

Dividends payable declared in 1999 of approximately RMB12,180,000 was outstanding as of 31 December 2001 and had been subsequently settled by the Company before the listing of the Company's shares on 28 February 2002.

12 EARNINGS PER SHARE

The calculation of basic earnings per share for the two years ended 31 December 2001 is based on profit attributable to shareholders and the weighted average number of 539,654,240 shares (2000: 346,675,010 shares) in issue for the year, taking into account that the stock split occurred in October 2001 was applied throughout the year.

No diluted earnings per share were presented as there were no dilutive potential ordinary shares issued for each of the two years.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

13 FIXED ASSETS, NET

Movements of fixed assets are as follows:

	2001						2000
	Land use rights	Buildings	Machinery	Motor vehicles	Office equipment and others	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or Valuation							
Beginning of year	1,585	14,392	5,534	643	870	23,024	60
Additions	81	—	806	1,462	416	2,765	22,627
Transfer from construction- in-progress	—	3,827	6,739	—	—	10,566	337
Revaluation	5,152	1,546	—	—	—	6,698	—
End of year	6,818	19,765	13,079	2,105	1,286	43,053	23,024
Representing							
At cost	—	—	13,079	2,105	1,286	16,470	23,024
At valuation	7,374	19,833	—	—	—	27,207	—
	7,374	19,833	13,079	2,105	1,286	43,677	23,024
Accumulated depreciation							
Beginning of year	(129)	(339)	(283)	(14)	(92)	(857)	(4)
Charge for the year	(32)	(446)	(755)	(163)	(213)	(1,609)	(853)
End of year	(161)	(785)	(1,038)	(177)	(305)	(2,466)	(857)
Net book value							
End of year	6,657	18,980	12,041	1,928	981	40,587	22,167
Beginning of year	1,456	14,053	5,251	629	778	22,167	56

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

13 FIXED ASSETS, NET (Cont'd)

The Company's land and buildings as of 31 December 2001 were appraised by Sallmanns (Far East) Limited, independent professional valuers, on 20 February 2002. These properties were appraised on the basis of depreciated replacement cost and are carried in the balance sheet at fair market value. As a result of the appraisal, an increase in value of the Company's land and buildings of approximately RMB6.9 million as of 31 December 2001 (2000: Nil) was credited to the revaluation reserve.

As of year end, the amounts of fixed assets that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation and impairment losses as of 31 December 2001 are as follows:

	Land use right	Buildings
	<i>RMB'000</i>	<i>RMB'000</i>
Cost	1,666	18,219
Accumulated depreciation	(160)	(873)
	1,506	17,346

Land and buildings are held in Mainland China under land use rights ranging from 30 years to 50 years. Buildings and machinery with net book value of approximately RMB26,037,000 were pledged as security for the Company's short-term bank loans.

14 CONSTRUCTION-IN-PROGRESS

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Beginning of year	3,931	—
Additions	6,635	4,268
Transfer to fixed assets	(10,566)	(337)
End of year	—	3,931

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

15 INTANGIBLE ASSETS, NET

Movements of intangible assets are as follows:

	2001 RMB'000	2000 RMB'000
Cost		
Beginning of year	16,000	—
Additions	55	16,000
End of year	16,055	16,000
Accumulated amortisation		
Beginning of year	—	—
Charge for the year	1,200	—
End of year	1,200	—
Net book value		
End of year	14,855	16,000
Beginning of year	16,000	—

Included in the cost of intangible assets was the technical know-how of approximately RMB 16,000,000 and the accounting software of approximately RMB 55,000. The technical know-how represented the right to develop two newly invented medicines namely Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsule acquired upon acquisition of NT Drugs. The protection period, during which the sole right to produce and sell the newly invented medicines is protected, will terminate on 2 November 2005 but can be extended upon the Company's application to and approval by the relevant authorities. Pursuant to the Directors' meeting dated 16 October 2000, the development period for these medicines would be 10 years. Therefore, the technical know-how was amortised over 10 years starting in April 2001, when it was ready for use.

As of 31 December 2001, the outstanding payable in respect of the purchase of intangible assets amounted to approximately RMB4,790,000.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

16 INVENTORIES, NET

	31 December	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Inventories consisted of:		
Raw materials	5,867	7,416
Work-in-progress	2,225	2,814
Finished goods	12,794	10,105
	20,886	20,335

17 ACCOUNTS RECEIVABLE, NET

	31 December	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Accounts receivable	49,107	40,764
Less: Provision for doubtful receivables	(7,325)	(3,440)
	41,782	37,324

The credit terms range from 90 to 120 days. Aging analysis of accounts receivable is as follows:

	31 December	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Aged:		
0 to 30 days	14,112	15,623
31 to 60 days	6,278	4,192
61 to 90 days	3,516	2,285
91 to 180 days	5,025	3,944
181 to 270 days	8,465	8,225
271 to 365 days	3,171	1,147
Over 365 days	8,540	5,348
	49,107	40,764

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

18 PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December	
	2001 RMB'000	2000 RMB'000
Advances to staff	3,918	2,673
Other receivable *	7,000	—
Deferred share issuance expenditures	4,942	—
Prepayment for laboratory testings	500	—
Others	1,064	258
	17,424	2,931

* On 20 May 2001, the Company entered into an agreement to acquire machinery and equipment amounting to RMB8,560,000. As of 31 December 2001, the Company paid a deposit of RMB7,000,000. Pursuant to a supplemental agreement dated 30 January 2002, the purchase was cancelled and was returned with the full amount of the deposit in February 2002.

19 SHORT-TERM BANK LOANS

As of 31 December 2001, the Company had short-term bank loans of RMB23,000,000 (2000: Nil). The bank loans bore interest at 6.435% per annum and were secured by buildings and machinery of the Company (see Note 13).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

20 ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	31 December	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Aged:		
0 to 1 month	6,822	1,962
1 to 6 months	354	1,713
6 to 12 months	237	453
1 to 2 years	163	311
2 years and over	361	—
	7,937	4,439

21 TAXATION PAYABLE

	31 December	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
VAT	4,130	4,643
Enterprise income tax	30	—
Withholding individual income tax	183	—
	4,343	4,643

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

22 ACCRUALS AND OTHER PAYABLES

	31 December	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Payable to the shareholders of NT Drugs*	15,315	15,315
Provision for staff welfare**	855	269
Payable for PRC statutory contribution	1,138	620
Payable for construction-in-progress	1,518	—
Payable to miscellaneous suppliers***	1,351	—
Deposit from salesmen	2,600	—
Other accruals	1,038	2,698
	23,815	18,902

* Payable to the then shareholders of NT Drugs represented the dividends payable declared by NT Drugs for the year ended 31 December 1999. Details of the dividends payable to the shareholders of NT Drugs are as follows:

	31 December	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Xu Dao Tian (executive director)	3,867	3,867
Du Li Hua (executive director)	1,056	1,056
Xu Zhe (executive director)	4,230	4,230
Liu Xiao Hong (executive director)	35	35
Other shareholders of NT Drugs	6,127	6,127
Total	15,315	15,315

Up to the date of approving the financial statements, such dividends payable were settled.

** Provision for staff welfare was provided at 14% of the staff salaries.

*** Deposit from salesmen represented the deposits paid by the salesmen to secure the proper collection of accounts receivable.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

23 DEFERRED TAX LIABILITIES

The components of deferred tax liabilities are as follows:

	31 December	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Timing difference on revenue recognition	488	321

There was no material unprovided deferred tax assets and liabilities as of 31 December 2000 and 2001.

24 LONG-TERM LOANS

As of 31 December 2001, an interest-free, unsecured long term loan of RMB8,000,000 (2000: Nil) was granted by China Hi-Tech Investment Company (the "Lender"), an unrelated company which was administratively supervised by the State Economic Development Committee, for the purpose of developing Yong Chong Cao Jun Power and Yong Chong Jun Power Capsule. According to the agreement, upon the completion of the development project, the Company can repay the loan by cash, or the Company can repay the loan from the Lender by issuance of shares of the Company to the Lender. Pursuant to an undertaking dated 15 February 2002 signed by the Lender, the Lender agreed not to demand repayment of the loan until August 2003 and not to request conversion of the loan into equity interest of the Company.

Another long-term loan amounted to RMB20,000 (2000: Nil) from an independent third party is unsecured, bears interest rate at 4.8% per annum and is repayable in December 2002.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

25 CAPITAL

The paid-in capital represented the aggregate amount of the nominal value of the Company. The movements of paid-in capital are as follows:

	Number of shares (in thousand)	Paid-in capital RMB'000	Share capital RMB'000
Balances as of 1 January 2000			
(registered and fully paid) *	N/A **	6,000	N/A **
Changes during the year ended 31 December 2000:			
Capital allotted for the acquisition of NT Drugs	N/A **	12,580	N/A **
Additional capital injection	N/A **	1,420	N/A **
Transfer from reserves	N/A **	33,965	N/A **
Capitalisation upon conversion into a joint stock company (registered, issued and fully paid (RMB1.00 each))	53,965	(53,965)	53,965
Balances as of 31 December 2000 and 2001	53,965	—	53,965

* There was no movement in capital for the year ended 31 December 2001.

** Prior to the restructuring of the Company into a joint stock company in Mainland China, the capital of the Company was not divided into ordinary shares and accordingly, no information regarding the number of shares was presented.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

26 RESERVES

The movements of reserves are as follows:

	Capital reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Statutory revenue reserve <i>RMB'000</i>	Discretionary revenue reserve <i>RMB'000</i>	(Accumulated losses)/ Retained profits <i>RMB'000</i>	Total reserves <i>RMB'000</i>
Balances as of 1 January 2000	—	836	1,671	2,622	(984)	4,145
Profit attributable to shareholders for the year	—	—	—	—	21,934	21,934
Premium on additional paid-in capital	19,290	—	—	—	—	19,290
Transfer to capital reserve (see Note 5)	1,180	—	—	—	(1,180)	—
Transfer to capital upon conversion into a joint stock company	(18,716)	(836)	(1,671)	(2,622)	(10,120)	(33,965)
Profit appropriated to reserve funds	—	902	1,804	—	(2,706)	—
Balances as of 1 January 2001	1,754	902	1,804	—	6,944	11,404
Revaluation surplus (see Note 13)	6,886	—	—	—	—	6,886
Profit attributable to shareholders for the year	—	—	—	—	22,030	22,030
Transfer to capital reserve (see Note 5)	2,784	—	—	—	(2,784)	—
Profit appropriated to reserve funds	—	1,373	2,745	—	(4,118)	—
Balances as of 31 December 2001	11,424	2,275	4,549	—	22,072	40,320

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

26 RESERVES *(Cont'd)*

According to the Company Law of Mainland China and Articles of Association of the Company, when distributing net profit of each year, the Company shall set aside 10% of its profit after taxation based on the statutory financial statements for the statutory revenue reserve fund (except where the reserve balance has reached 50% of the Company's paid-up share capital), and 5% to 10% at the discretion of the Board of Directors, for the statutory public welfare fund, and for the discretionary revenue reserve at a percentage determined by the directors. These reserves cannot be used for purposes other than those for which they are created and are not distributable as dividends without the prior approval by shareholders under certain conditions.

When the statutory revenue reserve is not sufficient to cover the prior years' losses, the current year's net profit will first be used to compensate the previous losses before the appropriations to the statutory revenue reserve and statutory public welfare fund.

Upon the conversion into a joint stock company on 30 June 2000, the Company transferred all the reserves of approximately RMB33,965,000 to capital upon conversion into a joint stock company. The transfer of the reserves was approved by the government authority and was verified by a certified public accountants in Mainland China.

The statutory revenue reserve as approved by the shareholders may be converted into share capital when the level of the reserve reaches 25% of the registered share capital provided that the balance of the statutory revenue reserve should not fall below 25% of the registered share capital after the conversion. As of 31 December 2001, no statutory revenue reserve was transferred into share capital subsequent to the Company's reorganization to a joint stock company.

The discretionary revenue reserve and capital reserve as approved by the shareholders may be converted into share capital.

Profit appropriation is subject to the approval of the Board of Directors and the shareholders' meeting. In accordance with prevailing rules and regulations in Mainland China, the reserve available for distribution is the lower of the amount determined under accounting principles generally accepted in Mainland China and the amount determined under HK GAAP.

As of 31 December 2001, the distributable reserves of the Company amounted to approximately RMB22,072,000.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

27 NOTES TO CASH FLOW STATEMENT

(a) Reconciliation from profit before taxation to net cash inflow from operating activities:

	2001 RMB'000	2000 <i>RMB'000</i>
Profit before taxation	27,027	22,255
Adjustments for:		
Provision for doubtful receivables	3,885	2,123
Depreciation of fixed assets	1,609	853
Interest income	(45)	(38)
Interest expense	360	8
Amortisation of technical know-how	1,200	—
Loss on revaluation of fixed assets	188	—
(Increase) decrease in inventories	(551)	16,915
Increase in accounts receivable	(8,343)	(6,077)
(Increase) decrease in prepayments and other current assets	(2,551)	7,492
Increase (decrease) in accounts payable	3,498	(11,738)
Increase in advance payments from customers	3,542	1,208
Increase in accruals and other payables	4,913	142
Net cash inflow from operating activities	34,732	33,143

(b) Analysis of the balance of cash and cash equivalents:

	2001 RMB'000	2000 <i>RMB'000</i>
Cash on hand	4	2
Cash at banks	12,729	2,566
	12,733	2,568

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

27 NOTES TO CASH FLOW STATEMENT (Cont'd)

(c) Analysis of changes in financing:

	Capital	Loans	Amounts due from parties (to) related	Payment for expenses in relation to proposed listing of shares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balances as of 1 January 2000	6,000	—	9,318	—	15,318
Cash flows from financing	—	—	(20,878)	—	(20,878)
Additional capital injection	2,669	—	—	—	2,669
Balances as of 31 December 2000	8,669	—	(11,560)	—	(2,891)
Cash flows from financing	—	—	(19,951)	—	(19,951)
Proceeds from short-term bank loans	—	23,000	—	—	23,000
Proceeds from long-term loans	—	8,020	—	—	8,020
Expenditure in relation to proposed listing of shares	—	—	—	(4,942)	(4,942)
Balances as of 31 December 2001	8,669	31,020	(31,511)	(4,942)	3,236

28 BANKING FACILITIES

As of 31 December 2001, the Company had aggregate banking facilities of approximately RMB23 million (2000 : Nil) for overdrafts, loans and trade financing, which were all utilised. These facilities were secured by certain buildings and machineries with an aggregate value of approximately RMB26 million (2000 : Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

29 COMMITMENTS

(a) Capital commitments

As of 31 December 2001, the Company had the following capital commitments in relation to purchases of fixed assets:

	<i>RMB'000</i>
Contracted	4,270
Authorised but not contracted for	—
	<hr/>
	4,270
	<hr/>

(b) Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases as of 31 December 2001 are analysed as follows:

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Within 1 year	70	35
After 1 year but within 5 years	175	245
	<hr/>	<hr/>
	245	280
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

30 SEGMENT REPORTING

The Company conducts its business within one business segment - the business of manufacturing and selling of medicine products in the PRC. The Company also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no segment information is presented.

31 SUBSEQUENT EVENTS

Subject to 31 December 2001, the following transactions took place:

- (a) On 28 February 2002, the Company issued 180,000,000 shares of RMB0.10 each to public investors by placing at HK\$0.26 each resulting in net proceeds of approximately \$46.8 million, of the Company. Since 28 February 2002, the Company's shares have been listed on the GEM of the Stock Exchange.
- (b) On 20 May 2001, the Company entered into an agreement to acquire machinery and equipment amounting to RMB8,560,000. As of 31 December 2001, the Company paid a deposit of RMB7,000,000. Pursuant to a supplemental agreement dated 30 January 2002, the purchase was cancelled and was returned with the full amount of the deposit in February 2002.
- (c) As of 31 December 2001, a long term loan of RMB8,000,000 was granted by China Hi-Tech Investment Company (the "Lender"), an unrelated company which was administratively supervised by the State Economic Development Committee, for the purpose of developing Yong Chong Cao Jun Power and Yong Chong Jun Power Capsule. According to the agreement, upon the completion of the development project, the Company can repay the loan by cash, or the Company can repay the loan from the Lender by issuance of shares of the Company to the Lender. Pursuant to an undertaking dated 15 February 2002 signed by the Lender, the Lender agreed not to demand repayment of the loan until August 2003 and not to request conversion of the loan into equity interest of the Company.

32 APPROVAL OF FINANCIAL STATEMENTS

The financial statement were approved and authorised for issue by the board of directors on 28 March 2002.

FINANCIAL SUMMARY

INCOME STATEMENT

(Amounts expressed in Renminbi Yuan)

	Years ended 31 December		
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>	1999 <i>RMB'000</i>
Turnover	84,513	84,431	76,622
Operating profit	27,342	22,225	16,310
Finance cost	(315)	30	15
Profit before taxation	27,027	22,255	16,325
Taxation	(4,997)	(321)	—
Profit attributable to shareholders	22,030	21,934	16,325

FINANCIAL SUMMARY

BALANCE SHEET

(Amounts expressed in Renminbi Yuan)

	Years ended 31 December		
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>	1999 <i>RMB'000</i>
Fixed assets, net	40,587	22,167	56
Construction-in-progress	—	3,931	—
Intangible assets, net	14,855	16,000	—
Prepayment for fixed assets	4,394	—	—
Net current assets	42,469	23,271	10,089
Long-term bank borrowings	(8,020)	—	—
Other long-term liabilities	—	—	—
Net assets	94,285	65,369	10,145
Representing:			
Capital	53,965	53,965	6,000
Reserves	40,320	11,404	4,145
Shareholders' equity	94,285	65,369	10,145