



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)

Interim Report 2002

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This report, for which the directors (“Directors”) of Northeast Tiger Pharmaceutical Co., Ltd. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

(unaudited)

- Turnover of the Company for the six months ended 30 June, 2002 was approximately RMB31,699,000, representing a decrease of 30% as compared with the same period in the previous year.
- Profit attributable to shareholders of the Company ("Shareholders") for the six months ended 30 June, 2002 was approximately RMB8,296,000, representing a decrease of approximately 29% as compared with same period in the previous year.
- Earnings per share (the "Shares") of the Company for the six months ended 30 June, 2002 was approximately RMB1.2 cents.
- The Directors do not recommend the payment of any dividend for the six months ended 30 June, 2002.

BUSINESS REVIEW AND PROSPECTS

Business Review of the Company

The Company is principally engaged in the manufacture and sale of Chinese medicine under the brand name of “Northeast Tiger” in the PRC as well as conducting pharmaceutical research and development. On 28 February, 2002, the Company’s H shares were successfully listed on GEM.

For the six months ended 30 June, 2002, turnover and profit attributable to Shareholders amounted to approximately RMB31,699,000 and RMB8,296,000 respectively, representing a decrease of approximately 30% and 29% respectively as compared with the corresponding period in 2001. The major reasons contributing to the decrease of turnover and profit were mainly due to the following factors: (i) the global economic recovery slowdown and the heat competition in domestic Chinese medicine industry further adversely affected the sales and distribution in the PRC market; (ii) the strict control over the medicine advertising via mass media in the PRC implemented by the State Drug Administration Bureau (“SDA”) together with the State Administration of Industry and Commerce of the PRC starting from the fourth quarter in 2001, had a negative impact on the further development of the Company’s sales market; and (iii) the sales of main product “Lu Lu Tong Injection” were lower than expected.

Product and Market

The Directors believe that the following strengths will enable the Company to maintain its products competitive edge in the PRC pharmaceutical market:

- *Established brand recognition in the PRC pharmaceutical industry*

The Company’s well-established brand name of “Northeast Tiger” and its main product, Lu Lu Tong Injection has won various awards and were recognized by the public in the PRC. The Directors are of the view that the sound reputation of the Company and established brand recognition of its products will enable the Company to enhance public awareness, and hence the market competitiveness of its products in the PRC.

- *Extensive sales and distribution network in the PRC*

The Company has an extensive sales and distribution network comprising a sales team of 210 members covering many cities in 28 provinces, independent municipalities and autonomous regions in the PRC. To enlarge its market share, the Company has expanded its sales and distribution network, strengthened its sales management to increase its competitiveness and set a firm foundation for further development.

- *A comprehensive products range of competitive Chinese medicines with good quality*

The Company possesses the production rights of 101 types of Chinese medicine, two of them have been acknowledged as State Category 1 new Chinese medicine. The Company has implemented various measures to reduce production costs and will focus on expansion of production capacity for products with growth potential.

Research and Development

With a pool of experienced research professionals and advanced GMP compliant facility and equipment, the Company will concentrate on the research and development of new Chinese medicines which may be awarded Certificate of new Chinese medicine ultimately.

Prospects

The Company is a sizeable enterprise in the PRC Chinese medicine industry and enjoys a competitive advantage. To further improve its profitability, the Company intends to further strengthen its internal management and reduce its operating costs through various methods and effectively adjust the product mix.

By focusing on its own industrial features, establishing its sales team and sales network which suit with the Company’s own characteristics, and making substantial efforts to maintain the relationship with the customers to promote the sales of its products, the Company will be able to overcome the challenges presented by the transforming pharmaceutical industry in the PRC following its entry into the World Trade Organization and implementation of health care reforms.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June, 2002, the Company had total assets of approximately RMB206,118,000 which were financed by current liabilities of approximately RMB53,790,000, long-term liabilities of RMB10,020,000 and shareholders equity of approximately RMB142,308,000.

The Company generally services its debts primary through cash generated from its operations. As at 30 June, 2002, the Company had cash and bank balances of approximately RMB36,768,000, and short-term bank loans of RMB25,000,000.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated
in the Prospectus dated
28th February, 2002

Actual business progress
from the Latest Practicable Date
to June 2002

Establishment of a new GMP
compliant plant

GMP compliant plant construction
planning; commencement of construction;
core construction

The core construction has nearly finished
and preparation for GMP certificate has
almost completed.

Expansion of the sales team and network

- 1. Identification of potential locations in
Hong Kong for setting up sales office
- 2. Expansion of sales team to 210
salesperson

A Hong Kong representative office has
been set-up in Central, Hong Kong.

The number of salesperson has reached
210.

Research and development of new
products

- 1. Application for clinical trial of Xie Sha
Tong Infusion Fluid (血塞通輸液)
- 2. Technology research and quality
standard development of Fu Fang Ge
Gen Powder Injection(複方葛根粉針)
- 3. Technology research and quality
standard development of Fu Fang Ge
Gen Infusion Fluid (複方葛根輸液)

Reporting supplemental clinical trial results
to SDA on April, 2002.

Further technology reseach result based on
New Medicine Research Guildline was not
satisfactory (no enough Fu Fang Co-effect).
The Company has ceased this product’s
research and development.

Stabilization testing can not comply with
the new medicine certificate standard. The
Company has ceased this product’s
research and development.

**Business objectives as stated
in the Prospectus dated
28th February, 2002**

**Actual business progress
from the Latest Practicable Date
to June 2002**

**Expansion of research and development
capacity**

- | | |
|--|--|
| 1. Construction planning for the research and development centre | Nearly complete the construction of research and development centre. |
| 2. Procurement of equipment | Part of equipment has been acquired, and the procurement of other equipment still in progress. |

Establishment of a website

Development of system; procurement of equipment and software	Indoor networking completed, procurement of equipment and software's consultation still in progress.
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COMPARISON OF USE OF THE NET PROCEEDS

	From the Latest Practicable Date to 30 June, 2002	
	Planned use of the net proceeds as set out in the Prospectus (HK\$' million)	Actual use of the net proceeds (HK\$' million)
Establishment of a new GMP compliant plant	10.0	25.8
Expansion of sales team and network	0.4	0.4
Research and development of new products	0.4	0.2
Expansion of research and development capacity	0.2	0.2
Establishment of a website	1.8	0.2
Use of the net proceeds from the Placing	<u>12.8</u>	<u>26.8</u>

Up to 30 June, 2002, the Company had utilized about HK\$26.8 million of the net Placing proceeds. The over utilization in Establishment of new GMP compliant plant is mainly due to the earlier completion of the construction of the GMP compliant plant. The under utilization in Establishment of a website is due to postponement of system development, because according to suggestion of expert, indoor networking must be created first as a base, and system should be carefully selected to ensure its user-friendness and being upgradeable. The residual fund (HK\$0.2 million) due to abandonment of Fu Fang Ge Gen Powder Injection and Fu Fang Ge Gen Infusion Fluid (複方葛根輸液) project will be used for other projects' research and development.

RESULTS (UNAUDITED)

The board of Directors (the "Board") is pleased to announce the unaudited results of the Company for the six months ended 30 June, 2002, together with the comparative figures for the corresponding periods of the previous financial year, as follows:

	<i>Notes</i>	Six months ended 30 June,		Three months ended 30 June,	
		2002	2001	2002	2001
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	b	31,699	45,115	14,716	27,362
Cost of sales		(13,382)	(20,752)	(6,205)	(13,022)
Gross profit		18,317	24,363	8,511	14,340
Other revenue	c	1,404	1,624	404	454
Distribution and selling expenses		(4,953)	(5,370)	(2,133)	(2,804)
General, administrative and other operating expenses		(4,563)	(6,860)	(2,926)	(5,795)
Operating profit	d	10,205	13,757	3,856	6,195
Finance costs		(445)	(30)	(101)	(28)
Profit before taxation		9,760	13,727	3,755	6,167
Taxation	e	(1,464)	(2,059)	(669)	(871)
Profit attributable to shareholders		8,296	11,668	3,086	5,296
Dividends		N/A	N/A	N/A	N/A
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Earnings per Share	f	1.2 cents	2.2 cents	0.4 cent	1 cent

CONDENSED BALANCE SHEET

		At 30 June, 2002 (Unaudited) RMB'000	At 31 December, 2001 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets, net	h	59,434	40,587
Construction-in-progress		25,915	—
Intangible assets, net	i	14,036	14,855
Prepayment for fixed assets		—	4,394
		<u>99,385</u>	<u>59,836</u>
CURRENT ASSETS			
Inventories		20,374	20,886
Accounts receivable, net	j	37,434	41,782
Prepayment and other current assets		12,157	17,424
Amounts due from related parties		—	37,030
Cash and cash equivalents		<u>36,768</u>	<u>12,733</u>
		106,733	129,855
CURRENT LIABILITIES			
Short-term bank loans		25,000	23,000
Accounts payable	k	8,138	7,937
Taxation payable		5,586	4,343
Advance payments from customers		—	5,314
Payable for intangible assets		—	4,790
Amounts due to related parties		—	5,519
Dividends payable		—	12,180
Accruals and other payables		14,845	23,815
Deferred tax liabilities	l	<u>221</u>	<u>488</u>
		<u>53,790</u>	<u>87,386</u>
NET CURRENT ASSETS		<u>52,943</u>	<u>42,469</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		152,328	102,305
NON-CURRENT LIABILITIES			
Long-term bank loans		<u>10,020</u>	<u>8,020</u>
		<u>142,308</u>	<u>94,285</u>
CAPITAL AND RESERVES			
Share capital	m	74,665	53,965
Reserves		<u>67,643</u>	<u>40,320</u>
TOTAL CAPITAL AND RESERVES		<u>142,308</u>	<u>94,285</u>

CONDENSED STATEMENT OF CASH FLOW

	Six months ended 30 June,	
	2002	2001
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash inflow from operating activities	31,520	9,675
Net cash outflow from returns on investments and servicing of finance	(445)	(30)
Tax paid, net	(5,078)	(4,745)
Net cash outflow from investing activities	(45,689)	(5,608)
Net cash outflow before financing	(19,692)	(708)
Net cash inflow from financing	43,727	8,020
Increase in cash and cash equivalents	24,035	7,312
Cash and cash equivalents at beginning of period	12,733	2,568
Cash and cash equivalents at end of period	36,768	9,880
Represented by Cash and Bank Balances		

Notes:

a. **Company reorganization and basis of presentation**

The Company was incorporated in the People's Republic of China (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 were listed on GEM since 28 February, 2002, details of which are set out in the prospectus of the Company dated 20 February, 2002 (the "Prospectus").

The principal accounting policies adopted in the preparation of the unaudited income statement of the Company for the six months ended 30 June, 2002 are consistent with those adopted in the audited accounts of the Company issued for the year ended 31 December, 2001.

b. **Turnover**

Turnover represented the net amounts received and receivable for goods sold during the relevant period.

c. **Other Revenue**

	Six months ended 30 June,		Three months ended 30 June,	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Government subsidies	1,404	1,634	404	504
Others	0	(10)	0	(50)
	<u>1,404</u>	<u>1,624</u>	<u>404</u>	<u>454</u>

Pursuant to the agreements between the PRC 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 PRC government authorities and the Company. Furthermore, according to prevailing rules and regulations in the PRC, the Company should appropriate net profit of the same amount as the subsidies to capital reserve when such subsidies are granted.

d. **Operating profit**

Operating profit is stated after charging the following items:

	Six months ended 30 June,		Three months ended 30 June,	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
— Depreciation of fixed assets	922	672	471	351
— Amortisation of intangible assets	824	283	412	277
	<u>824</u>	<u>283</u>	<u>412</u>	<u>277</u>

e. **Taxation**

Details of enterprise income tax for the relevant periods are as follows:

	Six months ended 30 June,		Three months ended 30 June,	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
The PRC enterprise income tax				
— Current income tax	1,243	2,059	747	853
— Deferred income tax	221	0	(78)	18
	<u>1,464</u>	<u>2,059</u>	<u>669</u>	<u>871</u>

f. **Earnings per Share**

The calculation of basic earnings per share of the Company for the six months and three months ended 30 June, 2002 is based on the respective unaudited profit attributable to Shareholders of approximately RMB8,296,000 and RMB3,086,000 (Six months and three months ended 30 June, 2001 respectively: RMB11,668,000 and RMB5,296,000), divided by the weighted average number of 679,179,102 and 746,654,240 (Six months and three months ended 30 June, 2001 respectively: 539,654,240 and 539,654,240) ordinary shares in issue during the periods.

No diluted earnings per share were presented as there were no dilutive potential ordinary shares in existence during the relevant periods.

g. **Segment reporting**

The Company conducts its business within one business segment — the business of manufacture and sale 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.

h. **Fixed assets, net**

	Six months ended 30 June, 2002 (Unaudited) RMB'000	Twelve months ended December, 2001 (Audited) RMB'000
Net book value, beginning of period/year	40,587	22,167
Additions	19,769	13,331
Revaluation	—	6,698
Disposals	—	—
Depreciation	(922)	(1,609)
	<hr/>	<hr/>
Net book value, end of period/year	<u>59,434</u>	<u>40,587</u>

i. **Intangible assets, net**

	Six months ended 30 June, 2002 (Unaudited) RMB'000	Twelve months ended December, 2001 (Audited) RMB'000
Net book value, beginning of period/year	14,855	16,000
Additions	5	55
Disposals	—	—
Amortisation	(824)	(1,200)
	<hr/>	<hr/>
Net book value, end of period/year	<u>14,036</u>	<u>14,855</u>

Included in the cost of intangible assets were the technical know-how and the accounting software. The technical know-how was amortized over 10 years starting from April 2001, when it was ready for use.

j. **Accounts receivable, net**

	Six months ended 30 June, 2002 (Unaudited) RMB'000	Twelve months ended December, 2001 (Audited) RMB'000
Accounts receivable	44,759	49,107
Less: Provision for doubtful receivables	(7,325)	(7,325)
	<hr/>	<hr/>
	<u>37,434</u>	<u>41,782</u>

Aging analysis of accounts receivable is as follows:

	Six months ended 30 June, 2002 (Unaudited) RMB'000	Twelve months ended December, 2001 (Audited) RMB'000
Aged:		
0-30 days	14,705	14,112
31-60 days	5,442	6,278
61-90 days	4,855	3,516
91-180 days	7,149	5,025
181-270 days	5,750	8,465
271-365 days	2,800	3,171
over 365 days	4,058	8,540
	<u>44,759</u>	<u>49,107</u>

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 salesperson.

k. **Accounts payable**

The aging analysis of accounts payable is as follows:

	Six months ended 30 June, 2002 (Unaudited) RMB'000	Twelve months ended December, 2001 (Audited) RMB'000
Aged:		
0 to 1 month	7,013	6,822
1 to 6 months	73	354
6 to 12 months	12	237
1 to 2 years	1,040	163
2 years and over	—	361
	<u>8,138</u>	<u>7,937</u>

l. **Deferred tax liabilities**

The components of deferred tax liabilities are as follows:

	Six months ended 30 June, 2002 (Unaudited) RMB'000	Twelve months ended December, 2001 (Audited) RMB'000
Timing difference on revenue recognition	<u>221</u>	<u>488</u>

m. **Share capital**

	Six months ended 30 June, 2002		Twelve months ended December, 2001	
	Number of share	Amount RMB'000	Number of share	Amount RMB'000
Issued and fully paid (RMB0.10 each)				
Beginning of period/year	539,654,240	53,965	539,654,240	53,965
Placing of shares	207,000,000	20,700	—	—
Repurchase of shares	—	—	—	—
End of period/year	<u>746,654,240</u>	<u>74,665</u>	<u>539,654,240</u>	<u>53,965</u>

MOVEMENT IN RESERVES

The movements of reserves are as follows:

	Capital reserve RMB'000	Statutory public welfare fund RMB'000	Statutory revenue reserve RMB'000	Discretionary revenue reserve RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total reserves RMB'000
Balances as of 1 January, 2001	1,754	902	1,804	—	6,944	11,404
Profit attributable to Shareholders for the period	—	—	—	—	11,668	11,668
Government subsidies	<u>1,634</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,634)</u>	<u>—</u>
Balances as of 30 June, 2001	<u>3,388</u>	<u>902</u>	<u>1,804</u>	<u>—</u>	<u>16,978</u>	<u>23,072</u>
Balances as of 1 January, 2002	11,424	2,275	4,549	—	22,072	40,320
Profit attributable to Shareholders for the period	—	—	—	—	8,296	8,296
Premium on issue of H shares, net of share issuing expenses	19,027	—	—	—	—	19,027
Government subsidies	<u>1,404</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,404)</u>	<u>—</u>
Balances as of 30 June, 2002	<u>31,855</u>	<u>2,275</u>	<u>4,549</u>	<u>—</u>	<u>28,964</u>	<u>67,643</u>

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June, 2002 (2001: nil).

DIRECTORS' AND SUPERVISORS' INTEREST IN SHARES, WARRANTS AND SHARE OPTIONS

Up to the reporting date, the interests of the Directors, supervisors ("Supervisors") and their respective associates (as defined in GEM Listing Rules) 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 GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Directors'/ Supervisors' 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, Supervisors, the chairman or their respective associates (as defined in the GEM Listing Rules) has 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 30 June, 2002.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

As at 30 June, 2002, the Company was not a party to any arrangements to enable the Directors and Supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and Supervisors of the Company or their respective associates (as defined in the GEM Listing Rules) had any right to subscribe the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 30 June, 2002, 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 and Supervisor, the following shareholder has 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	26.01

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 30 June, 2002.

COMPETING INTERESTS

None of the Directors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in any business which competes or may compete with the business of the Company.

SPONSOR'S INTERESTS

First Shanghai Capital Limited, its directors, employees or associates (as defined in the GEM Listing Rules), 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 30 June, 2002.

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 the sponsor of the Company for a period up to 31 December, 2004 and the Company shall pay an agreed fee to First Shanghai Capital Limited for its provision of services.

AUDIT COMMITTEE

The Company has set up an audit committee with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The committee comprises Ms. Liu Jin and Ms. Niu Shu Min, both of whom are independent non-executive Directors.

The audit committee had reviewed the Company's unaudited results for the six months ended 30 June, 2002 and was of the opinion that the preparation of unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

PRACTICES AND PROCEDURES OF THE BOARD

The Directors considered that the Company has complied with the requirement of Board practices and procedures of Rules 5.28 to 5.39 of the GEM Listing Rules throughout the six months period.

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.

By Order of the Board
Xu Zhe
Chairman

12 August, 2002
Jilin, the PRC