



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)

Third Quarterly Report 2002

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

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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 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 nine months ended 30 September, 2002 was approximately RMB50,223,000, representing a decrease of 21% as compared with the same period in the previous year.
- Profit attributable to shareholders of the Company for the nine months ended 30 September, 2002 was approximately RMB11,613,000, representing a decrease of approximately 26% as compared with the same period in the previous year.
- Earnings per share for the nine months ended 30 September, 2002 of the Company (the “Shares”) was approximately RMB1.7 cents.
- The Directors do not recommend the payment of any dividend for the nine months ended 30 September, 2002.

RESULTS

The board of Directors (the “Board”) is pleased to announce the unaudited results of the Company for the nine months ended 30 September, 2002, together with the comparative figures for the corresponding period of the previous financial year, as follows:

	<i>Notes</i>	Nine months ended 30 September, 2002		Three months ended 30 September, 2002	
		RMB'000	2001 RMB'000	RMB'000	2001 RMB'000
Turnover	<i>b</i>	50,223	63,709	18,524	18,594
Cost of sales		(23,522)	(29,670)	(10,140)	(8,918)
Gross profit		26,701	34,039	8,384	9,676
Other revenue	<i>c</i>	1,404	1,625	0	1
Distribution and selling expenses		(7,363)	(7,454)	(2,410)	(2,084)
General, administrative and other operating expenses		(6,888)	(8,757)	(2,325)	(1,897)
Operating profit		13,854	19,453	3,649	5,696
Finance costs		(766)	(139)	(321)	(109)
Profit before taxation		13,088	19,314	3,328	5,587
Taxation	<i>d</i>	(1,475)	(3,669)	(11)	(1,610)
Profit attributable to shareholders		11,613	15,645	3,317	3,977
Dividends		N/A	N/A	N/A	N/A
		RMB	RMB	RMB	RMB
Earnings per Share-basic	<i>e</i>	1.7 cents	2.9 cents	0.4 cents	0.7 cents

Notes:

a. Basis of presentation

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

b. Turnover

Turnover represented the net amounts received and receivable for goods sold by the Company to outside customers during the period.

c. Other Revenue

	Nine months ended 30 September, 2002		Three months ended 30 September, 2002	
	RMB'000	2001 <i>RMB'000</i>	RMB'000	2001 <i>RMB'000</i>
Government subsidies	1,404	1,634	0	0
Others	–	(9)	–	1
	<u>1,404</u>	<u>1,625</u>	<u>0</u>	<u>1</u>

d. Taxation

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

	Nine months ended 30 September, 2002		Three months ended 30 September, 2002	
	RMB'000	2001 <i>RMB'000</i>	RMB'000	2001 <i>RMB'000</i>
The PRC enterprise income tax				
– Current income tax	1,963	3,990	720	1,931
– Deferred income tax	(488)	(321)	(709)	(321)
	<u>1,475</u>	<u>3,669</u>	<u>11</u>	<u>1,610</u>

The Company is established in Jilin High-technology Development Zone (the “Zone”), the People’s Republic of China (“PRC”). It is subject to enterprise income tax at a rate of 15%.

e. Earnings per Share

The calculation of basic earnings per share of the Company for a relevant period is based on unaudited profit attributable to Shareholders for the period, divided by the

respective weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares in issue for the nine months and three months ended 30 September, 2002 are 679,170,724 and 746,654,240 (nine months and three months ended 30 September, 2001: 539,654,240 and 539,654,240)

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

f. 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.

MOVEMENT IN 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 2001	1,754	902	1,804	–	6,944	11,404
Profit attributable to Shareholders for the period	–	–	–	–	15,645	15,645
Government subsidies	1,634	–	–	–	(1,634)	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balances as of 30 September 2001	<u>3,388</u>	<u>902</u>	<u>1,804</u>	<u>–</u>	<u>20,955</u>	<u>27,049</u>
Balances as of 1 January 2002	11,424	2,275	4,549	–	22,072	40,320
Profit attributable to shareholders for the period	–	–	–	–	11,613	11,613
Premium on issue of H shares, net of share issuing expenses	19,027	–	–	–	–	19,027
Government subsidies	1,404	–	–	–	(1,404)	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balances as of 30 September 2002	<u>31,855</u>	<u>2,275</u>	<u>4,549</u>	<u>–</u>	<u>32,281</u>	<u>70,960</u>

DIVIDENDS

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

BUSINESS REVIEW AND PROSPECTS

Business Review of the Company

The Company's turnover and operating profit derive entirely from the sale of Chinese medicine in the PRC.

During the period under review, the Company was principally engaged in the manufacture and sale of Chinese medicine under the brand name of "Northeast Tiger" in the PRC. Consistent with the overall strategy of this year to capture opportunities and develop with innovation, the Company strove for establishing an effective market-oriented operation system and strengthened its research and development, as well as made substantial effort to ensure products' quality and logistics' effectiveness.

For the nine months ended 30 September, 2002, the turnover and profit attributable to shareholders of the Company amounted to approximately RMB50,223,000 and RMB11,613,000 respectively, representing a decrease of 21% and 26% respectively as compared with the corresponding period in 2001. The decrease in turnover is mainly due to global economic downturn and weak market sentiment.

GMP

The Company proactively launched the GMP standard certification, and further consolidated its achievements in GMP standards. In addition to granules and pills, the production lines of capsules and injections have successfully passed the GMP standard autoptic certification in the third quarter of this year. The launch and development in the GMP standard certification effectively enhanced the quality of the Company's products and corporate management.

Staff Training and Marketing Activities

During the period under review, the Company has set up an over-the-counter ("OTC") sales team which supplemented sales and distribution network and emphasize on professional training of marketing executives. Apart from employees of the Company, our intensive training schemes also cover employees of major distributors. During the period under review, the Company organized a number of training activities on communication skills, self-management, customer resources management, business manner, negotiation skill, basic business management and preparation of OTC manual for sales executive of different levels.

Research and Development

With advanced GMP compliant facility and equipment and broad experienced research professionals, insight for innovation, and a result-oriented attitude, our research and development (“R & D”) department is always ready to make further improvements to the existing products. The R & D department is also committed to developing and searching new proprietary Chinese medicine and supplement products with commercial value to expand the product range of the Company.

Prospects

According to the estimates released by the World Health Organization (“WHO”), the PRC population is projected to grow from the current 1.3 billion to 1.5 billion by 2020. By then, the number of population over 60 years of age is estimated to reach 240 million. Associated with the ageing population is an expected substantial increase in age-related disease – cardiovascular and cerebrovascular diseases which implies a huge market potential for treatment of this kind of diseases and hence represents a significant potential market for our main product Lu Lu Tong Injection.

The rapid growth of the domestic economy has prompted greater health consciousness among the general public. The Directors believe that demand for Chinese medicine and supplement health products will continue to rise in the future which will help the Company to enlarge its market share. With the further progress in research and development and the continued expansion of operations, the Directors are confident that the Company is on track to achieving its long term goal of becoming a leading Chinese medicine producer in the PRC, and to generate satisfactory returns to shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September, 2002, the Company were financed by current liabilities of approximately RMB55,317,000, long-term liabilities of RMB10,020,000 and shareholders equity of approximately RMB153,921,000.

The Company generally services its debts primarily through cash generated from its operations. As at 30 September, 2002, the Company had cash and bank balances of approximately RMB9,260,000. Taken into consideration of its current financial resources, the Directors believed the Company shall have adequate fund for its continual operation and development.

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
	<u>338,983,810</u>

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 September, 2002.

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

As at 30 September, 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 for securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 30 September, 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 September, 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 September, 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 nine months ended 30 September, 2002 and was of the opinion that the preparation of the 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 under Rules 5.28 to 5.39 of the GEM Listing Rules throughout the nine 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

8 November, 2002

Jilin, the PRC