



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 2002



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This report, for which the directors (the "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 (the "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.

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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

PricewaterhouseCoopers

SPONSOR

First Shanghai Capital Limited

LEGAL ADVISOR

Li & Partners

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

Unit 5, 7/F, Asia Standard Tower
59-65 Queen's Road Central
Central, Hong Kong



Chairman's Statement

On behalf of the Board of Directors (the "Board") of Northeast Tiger Pharmaceutical Co. Ltd., I hereby present to our shareholders the annual report of for the year ended 31 December 2002 since its listing on GEM on 28 February 2002.

The Company is a sizeable enterprise that principally engaged in the manufacture and sale of Chinese medicine under the brand name of "Northeast Tiger" in People's Republic of China (the "PRC") as well as conducting pharmaceutical research and development. Upon the Company's listing on GEM, the Company has invested substantially in product manufacturing and development as well as market expansion.

GOOD MANUFACTURING PRACTICE ("GMP")

GMP has been universally regarded as a prerequisite for ensuring product quality. Pursuant to the "Notice Regarding the Relevant Stipulations of the GMP" and the "Notice Regarding the Expedition of the Regulation concerning the Implementation of the GMP Standards in Pharmaceutical Enterprises" (collectively, the "GMP Notices") issued by the State Drug Administration of the PRC ("SDA") in 1999, pharmaceutical manufacturing enterprises producing small injection products must obtain GMP certification prior to the end of 2002, and those producing other forms of products must obtain GMP certification by 30 June 2004. To comply with the GMP Notices, during the year, the Company proactively pursued to obtain the GMP standard certification, and further consolidated its achievements in GMP standards. In addition to granules and pills, the production lines of capsules and small volume injections have successfully passed the GMP standard autoptic certification in the third quarter of this year, and obtained GMP certificate in December 2002. The launch and development in the GMP standard certification ensure that our Company's Pharmaceutical Production Enterprise Permits be renewed, and production of the relevant products, particularly new products be continuing and further effectively enhanced the quality of the Company's products and corporate management.

MARKETING

During the year, the Company has set up a marketing centre in Beijing, the PRC, the Directors believed that this would help to increase sales, enhance brand awareness and maintain good relationship with related government authorities and medicine research institutions. Besides, an information system for sales and marketing analysis was implemented to keep abreast of the market conditions so as to adjust the marketing strategy on a timely basis.



Chairman's Statement

RESEARCH AND DEVELOPMENT

During the year, China Hi-Tech Investment Company, an unrelated company which was administratively supervised by the State Economic Development Committee granted an interest-free, unsecured loan of RMB10 million for the purpose of developing Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsule. It shall further accelerate the launch of these two new products, Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsule, which has been acknowledged as State Category 1 new Chinese medicine.

During the year, the Company has completed the construction of research centre and procurement of equipments, 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.

RELATIONSHIP WITH HOSPITAL

The Company has a long-standing track record of strategic direct connection with over 120 hospitals throughout the PRC. It demonstrates that the relationship give the Company access to, not only new product candidates and research technologies, but also new markets. In addition, the expanding sales network with hospital has demonstrated to be resistant to the price competition prevailing in the OTC market in the PRC.

PROSPECTS

Chinese medicine has an advantageous position on the Mainland, as the PRC Government considers the development of Chinese medicine as a very important issue. The 15-year Plan for the Chinese medicine industry clearly states that the government will speed up the development of Chinese medicine and facilitate its modernization. With a new drug registration regulation in the PRC that emphasizes on intellectual property right and its protection coming into effect soon and long development lead time of new medicines, the Directors believe that the entry barriers for new competitors are high, and people are paying more attention to health with rising living standard, the demand for medical and health products in the PRC will increase substantially in future, so the Chinese medicine market still has great potential to explore. The Company will continue to conduct its market campaign to strengthen the brand loyalty of "Northeast Tiger", and to undertake more efforts to stimulate an increasing demand for the Company's products.



Chairman's Statement

On behalf of the Board, I would like to thank the management and staff for their hard work and dedicated commitment. The Company will leverage on the innovation and further dedication of all staff to bring long-term sustainable benefits to all its shareholders.

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC
27 March 2003



Management Discussion and Analysis

For the year ended 31 December 2002, turnover and profit attributable to Shareholders amounted to approximately RMB80,499,000 and RMB12,853,000 respectively, representing a decrease of approximately 5% and 42% respectively as compared with the previous year. The major reasons contributing to the decrease in turnover were mainly due to the following factors: (i) the State's pricing control policy on pharmaceutical products coupled with severe competition in the domestic market have, to a certain extent, affected the business growth of the Company; and (ii) the growing consciousness of customers over price control had resulted in a significant change on customers' purchasing pattern and inventory management practices. The customers have reduced their inventory level in order to cut down the carrying cost and to take advantage of the further price reduction anticipated under this severe price competitive market by placing each order in smaller quantities but on a more frequent basis.

During the year, the Company reported an audited gross profit of approximately RMB44,825,000 with a margin of approximately 56% while the previous year's gross profit was around RMB48,435,000 with a margin of 57%. The slight decrease in gross profit margin was mainly due to change in product mix.

General, administrative and operating expenses for the year increased to approximately RMB20,943,000 from approximately RMB13,940,000 of previous year, representing an increase of approximately 50%. This increase was mainly due to the additional depreciation resulting from the establishment of GMP compliant plant and marketing centre in Beijing, and an increase in salaries and allowances.

Distribution and selling expenses has decreased from RMB9,984,000 to RMB7,278,000, which was mainly contributed to the Company's effective logistic system and efficient sales network.

Financial cost increased dramatically from RMB360,000 to RMB1,435,000 due to funding from the banks for office building decoration, a series of marketing campaign, and the setting up of Beijing Marketing Centre. At 31 December 2002, the Company had repaid RMB 15 million to reduce interest cost.



Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2002, the Company had total assets of approximately RMB213,971,000 which were financed by short-term borrowings of approximately RMB35,020,000 and shareholders equity of approximately RMB146,865,000.

The Company generally services its debts primarily through cash generated from its operations. As at 31 December 2002, the Company had cash and bank balances of approximately RMB5,575,000, and short-term borrowings of RMB35,020,000 including unsecured interest-free loan of RMB10,000,000 from China Hi-Tech Investment Company. The gearing ratio of the Company, defined as a ratio between total debts and shareholders' equity, was 0.46. The liquidity ratio, represented by a ratio between current assets over current liabilities, was 1.18, reflecting sufficiency of financial resources.

TREASURY POLICIES

With 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 with overdue balances over 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.

Review of Business Objectives

Business objectives as stated in the Prospectus dated 28 February 2002

Actual business progress from 28 February 2002 to 31 December 2002

Establishment of a new GMP compliant plant

GMP compliant plant completion of core construction; internal renovation; procurement of facilities

The GMP plant finished in October 2002 and GMP certificate obtained in December 2002

Expansion of the sales team and network

1. Establishment of the sales office in Hong Kong, apply and obtain business registration certification and an import license; commencement of operation
2. Expansion of sales team to 225 salesperson

A representative office has been set up in Hong Kong, however the Company decided to postpone the commencement of operation due to adverse market condition in Hong Kong Chinese medicine industry.

The number of salesperson has reached 225.

Research and development of new products

1. Commencement of clinical trial of Xue Sha Tong infusion Fluid (血塞通輸液)
2. Toxicological and pharmacological research of Fu Fang Ge Gen Powder Injection (複方葛根粉針)
3. Toxicological and pharmacological research of Fu Fang Ge Gen Infusion Fluid (複方葛根輸液)

Supplemental report on clinical trial results to SDA has completed. Application for clinical trial is in progress.

Further technological research results regarding the level of Fu Fang co-effect based on New Medicine Research Guideline was not satisfactory. 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.

Review of Business Objectives

Expansion of research and development capacity

- | | | |
|----|---|---|
| 1. | Preliminary construction of the research centre | Completed the construction of research centre |
| 2. | Completion of procurement of equipment | Completed procurement of equipment |

Establishment of a website

- | | |
|---|---|
| Launch of website; obtain approval from the JDA and inform the SDA; trial operation | Completed construction of LAN, and launched web page of the Company. However, as the drug administration authority has tightened the control over the approval of medical website, in order to avoid loss, further website construction has been suspended. |
|---|---|

COMPARISON OF USE OF THE NET PROCEEDS

	From 28 February 2002 to 31 December 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	18.0	28.0
Expansion of sales team and network	2.0	1.6
Research and development of new products	1.6	0.3
Expansion of research and development capacity	1.4	1.2
Establishment of a website	2.0	0.2
Use of the net proceeds from the Placing	25.0	31.3

Up to 31 December 2002, the Company had utilized about HK\$31.3 million of the net proceeds. Since the Company aimed to complete the establishment of the GMP compliant plant as early as possible, consumption of materials for the construction was more than expected during 2002. In the coming year, there will have no such use as the establishment of GMP compliant plant was completed. The under-utilization in expansion of sales team and network was due to the postponement of commencement of business operation in Hong Kong. The under-utilization in establishment of a website was due to suspension of further website development. The residual fund due to cessation of developing of Fu Fang Ge Gen Powder Injection (複方葛根粉針) and Fu Fang Ge Gen Infusion Fluid (複方葛根輸液) project will be used in other products' research and development in future.

Profiles of Directors, Supervisors And Senior Management

DIRECTORS

Executive Directors

Xu Zhe, aged 33, 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 City Yidaitianqiao Pharmaceutical Company Limited ("Hailaer") and Yakeshi Northeast Tiger Pharmaceutical Company Limited ("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 52, 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 55, 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 from 11



Profiles of Directors, Supervisors And Senior Management

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 38, 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 39, 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 33, 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 63, 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 40, 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 47, 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 33, 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 32, 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 34, is the chief 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 Hong Kong Society of Accountants and has over five years of working experience in finance and auditing. He joined the Company in February 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 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 2002 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

Zhang Ya Bin

Chairman

Jilin, the PRC
27 March 2003

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the second annual general meeting ("AGM") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") will be held at No.3, No.2 Road, Jilin Hi-Tech Development Zone, Jilin City, Jilin Province, PRC on 20 May 2003 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 2002;
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; and
4. To consider and approve the change of the Registered Office of the Company from No.13, No. 16 Building, District C, Hengshan Road, Jiangnan Avenue, Jilin Hi-Tech Development Zone, Jilin City, Jinlin Province, PRC to the new address at No.3, No. 2 Road, Jilin Hi-Tech Development Zone, Jilin City, Jilin Province, PRC; and
5. To transact any other business, if any.

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC
28 March 2003

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 17 April 2003 to 20 May 2003 (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 16 April 2003, 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 30 April 2003.



Report of the Directors

The Directors are pleased to present their report together with the audited accounts of Northeast Tiger Pharmaceutical Company Limited (the “Company”) for the year ended 31 December 2002.

COMPANY ORGANISATION

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 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 manufacturing and selling of Chinese medicine products in the PRC as well as conducting pharmaceutical research and development.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Company’s major suppliers and customers are as follows:

Purchases

– the largest supplier	42%
– five largest suppliers combined	86%

Sales

– the largest customer	3%
– five largest customers combined	12%

None of the Directors, Supervisors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company’s share capital) had an interest in the major suppliers or customers noted above.

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the profit and loss accounts on page 26.

The Directors do not recommend the payment of a dividend.



Report of the Directors

RESERVES

Movement of the reserves of the Company during the year is set out on Note 23 to the accounts.

FIXED ASSETS

Details of the movements of fixed assets of the Company are set out in Note 13 to the accounts.

FOREIGN EXCHANGE RISK

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

CONTINGENT LIABILITIES

As at 31 December 2002, the Company did not have any material contingent liabilities.

SIGNIFICANT INVESTMENTS

During the year, the Company has no any significant investment which needed 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.

SHARE CAPITAL

Details of movement of share capital of the Company are set out in Note 22 to the accounts.

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.



Report of the Directors

DIRECTORS

The Directors 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 (*Vice-Chairman*)

Liu Xiao Hong

Leng Zhan Ren

Independent Non-executive Directors

Liu Jin

Niu Shu Min

In accordance with article 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' AND SUPERVISORS' SERVICE CONTRACTS

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

EMPLOYEE INFORMATION

As of 31 December 2002, the Company had 535 employees (2001: 542). The total amount of employee's remuneration, including the directors and provident contributions for the year amounted to approximately RMB5,279,000 (2001: RMB4,293,000). The Company pays its employees based on their performance, experience and the prevailing industry practice. During the year, no share options scheme was introduced.

Report of the Directors

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
	338,983,810

Other than those 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 31 December 2002.

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

As at 31 December 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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 31 December 2002.

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.

RETIREMENTS SCHEME, PERSONNEL AND PAYROLL

Particulars of the Retirement Scheme of the Company are set out in Note 12 to the accompanying accounts.

BANK BORROWINGS

Particulars of bank borrowings of the Company as at 31 December 2002 are set out in Note 18 to the accompanying accounts.

Report of the Directors

CONNECTED PARTY TRANSACTIONS

During the year, the Company had entered into the following connected transactions (For details please refer to the circular dated 13 March 2003):

- (i) on 22 March 2002, the Company entered into a verbal agreement with FE Holdings, pursuant to which the Company agreed to acquire and FE Holdings agreed to sell the Property at a cash consideration of approximately RMB7.4 million (approximately HK\$6.9 million). The Company continued to construct the Property as a GMP compliant plant. On 10 January 2003, the Company entered into a memorandum with FE Holdings to record the details of such verbal agreement;
- (ii) on 1 March 2002, the Company made an advance ("First Advance") of approximately RMB5.3 million (approximately HK\$5.0 million) to FE Holdings for the purpose of supporting FE Holdings' exploration of new markets. The First Advance was unsecured, interest-free and had no fixed terms of repayment. The Directors confirmed that FE Holdings had fully repaid the First Advance without interest to the Company on 31 December 2002; and
- (iii) on 1 September 2002, the Company made a further advance ("Second Advance") of approximately RMB7.5 million (approximately HK\$7.0 million) to FE Holdings for the purpose of supporting FE Holdings' exploration of new markets. The Second Advance was unsecured, interest-free and had no fixed terms of repayment. The Directors confirmed that FE Holdings had fully repaid the Second Advance without interest to the Company on 31 December 2002.

As FE Holdings is a substantial shareholder of the Company, the acquisition of the Property from FE Holdings and the making of the two advances mentioned in (ii) and (iii) above (the "Two Advances") to FE Holdings by the Company constitute connected transactions for the Company in accordance with the GEM Listing Rules. The acquisition of the Property is subject to the requirements of reporting and announcement under Rule 20.24 of the GEM Listing Rules as the terms of such connected transaction were arrived at after arm's length negotiations between both parties and the consideration for such connected transaction is less than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company. The making of the Two Advances is subject to the requirements of reporting, announcement and independent shareholders' approval under Rule 20.50 of the GEM Listing Rules as the Two Advances were not made on normal commercial terms and the making of the Two Advances was not part of the ordinary and usual course of business of the Company.



Report of the Directors

Since the above connected transactions had been conducted by the Company, the failure by the Company to report and announce the details of the acquisition of the Property and to report, announce and seek independent shareholders' approval on the making of the Two Advances have constituted a breach of Rules 20.50 and 20.24 respectively of the GEM Listing Rules.

In addition, on 27 August 2002, the Company entered into the Agency Agreement with Hailaer, pursuant to which the Company agreed to appoint Hailaer as its agent for the purpose of procuring 羚羊角 (Antelope's Horn) from independent suppliers. The consideration for entering into the Agency Agreement was nil as the Company was not required to pay any fees or commissions to Hailaer for the services Hailaer provided under the Agency Agreement. For the period from August 2002 to September 2002, the Company provided funds of approximately RMB2.4 million (approximately HK\$2.2 million) in aggregate to Hailaer for the procurement of Antelope's Horn. The Directors confirmed that Hailaer had fully returned such funds to the Company in cash on 31 December 2002 as the price of Antelope's Horn surged since September 2002.

As approximately 66.8% of Hailaer's interest is owned by FE Holdings, a substantial shareholder of the Company and approximately 31.3% is held by Xu's Family, Hailaer is a connected person of the Company under the GEM Listing Rules. Accordingly, the entering into of the Agency Agreement constituted a connected transaction for the Company under the GEM Listing Rules. However, as the transaction contemplated under the Agency Agreement was made on normal commercial terms and the value (i.e. nil) of the transaction falls within the de minimis value as stipulated in Rule 20.23(2) of the GEM Listing Rules, such transaction is exempted from all the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

Saved as disclosed above, the other connected party transactions disclosed within Note 3 to the accompanying accounts constituted the connected transactions under Chapter 20 of the GEM Listing Rules. The Directors of the Company are of the opinion that the above transactions with connected parties were conducted under normal commercial terms in the usual course of business. The independent non-executive Directors of the Company have reviewed the above transactions and confirmed that the above transactions (during the period(s) where they constituted connected transactions under the GEM Listing Rules, where applicable):

- (a) have been entered into by the Company in the ordinary course of its business;
- (b) have been entered into (i) on normal commercial terms or (ii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and



Report of the Directors

- (c) have been entered into either (i) in accordance with the terms of the agreements governing such transactions or (ii) (where there is no such agreement) on terms no less favourable to the Company than terms available to third parties.

With regard to the connected transactions of the Company referred to above, the Company confirms that to the extent required under Chapter 20 of the GEM Listing Rules:

- (i) it has set out the requisite details in this annual report; and/or
- (d) details of such transactions have been published in previous announcements in Hong Kong; and/or
- (e) certain transactions are subject to the waivers from strict compliance with GEM Listing Rules 20.35 and 20.36 previously granted by the Stock Exchange.

CORPORATE GOVERNANCE

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 12 months period.

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 audited results for the year ended 31 December, 2002 and was of the opinion that the preparation of audited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

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.



Report of the Directors

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 31 December 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.

CLOSURE OF H SHARE REGISTER

The H shares register of the Company will be closed from 17 April 2003 to 20 May 2003 (both days inclusive), during which no transfer of H shares will be effected.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers (appointed by the Board to fill the casual vacancy arising from the resignation of Arthur Andersen & Co in September 2002). A resolution for re-appointment of PricewaterhouseCoopers as the Company's auditors for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC
27 March 2003

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF NORTHEAST TIGER PHARMACEUTICAL CO., LTD.

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

We have audited the accounts on pages 26 to 55 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 accounts which give a true and fair view. In preparing accounts 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 accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.



Auditors' Report

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company as of 31st December 2002 and of the Company's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27th March 2003

Profit and Loss Account

FOR THE YEAR ENDED 31ST DECEMBER 2002

	Notes	2002 RMB'000	2001 RMB'000
Turnover	3, 4	80,499	84,513
Cost of sales	3	(35,674)	(36,078)
Gross profit		44,825	48,435
Other revenue	5	1,843	2,876
Distribution and selling expenses		(7,278)	(9,984)
General, administrative and operating expenses		(20,943)	(13,940)
Operating profit	6	18,447	27,387
Finance costs	7	(1,435)	(360)
Profit before taxation		17,012	27,027
Taxation	8	(4,159)	(4,997)
Profit attributable to shareholders		12,853	22,030
Dividends	9	–	–
Basic earnings per share	10	RMB 0.02	RMB 0.04
Diluted earnings per share	10	N/A	N/A

Balance Sheet

AS OF 31ST DECEMBER 2002

	Notes	2002 RMB'000	2001 RMB'000
Non-current assets			
Fixed assets	13	121,451	40,587
Intangible assets	14	13,410	14,855
Prepayment for fixed assets		–	4,394
		134,861	59,836
Current assets			
Inventories	15	12,121	20,886
Accounts receivable	3, 16	49,493	41,782
Prepayments and other current assets	17	6,263	17,424
Amounts due from related parties	3	5,658	32,912
Cash and bank deposits		5,575	12,733
		79,110	125,737
Current liabilities			
Short-term borrowings	18	35,020	23,000
Accounts payable	3, 19	4,742	7,937
Taxation payable	20	7,981	4,831
Advance from customers		8,021	5,314
Payable for intangible assets	14	1,770	4,790
Amounts due to related parties	3	2,136	1,401
Dividends payable		–	12,180
Accruals and other payables	21	7,436	23,815
		67,106	83,268
Net current assets		12,004	42,469
Total assets less current liabilities		146,865	102,305
Non-current liabilities			
Long-term borrowings	18	–	8,020
Net assets		146,865	94,285
Financed by:			
Share capital	22	74,665	53,965
Reserves	23	72,200	40,320
Shareholders' funds		146,865	94,285

Liu Xiao Hong
Director

Leng Zhan Ren
Director



Statement of Changes in Equity

FOR THE YEAR ENDED 31ST DECEMBER 2002

	Notes	2002 RMB'000	2001 RMB'000
Total equity balance at the beginning of the year	22, 23	94,285	65,369
Surplus on revaluation of properties	23	–	6,886
Profit attributable to shareholders	23	12,853	22,030
Issue of shares	22, 23	57,087	–
Expenses incurred with issue of shares	23	(17,360)	–
Total equity balance at the end of the year		146,865	94,285

Cash Flow Statement

FOR THE YEAR ENDED 31ST DECEMBER 2002

	Notes	2002 RMB'000	2001 RMB'000
Net cash inflow from operating activities	24 (a)	18,108	34,724
Investing activities			
Purchase of fixed assets		(84,329)	(9,400)
Prepayment for fixed assets		11,394	(18,394)
Increase in payable for fixed assets and construction-in-progress		1,670	1,518
Payments for intangible assets		(3,188)	(4,455)
Decrease/(increase) in amounts due from related parties		27,254	(20,194)
Interest received		24	45
Net cash outflow from investing activities		(47,175)	(50,880)
Net cash outflow before financing		(29,067)	(16,156)
Financing activities	24 (b)		
Increase of short-term borrowings		2,000	23,000
Increase of long-term borrowings		2,000	8,020
Issue of shares		57,087	–
Expenses incurred with issue of shares		(12,418)	(4,942)
Increase in amounts due to related parties		735	243
Decrease in payable to the shareholders of Jilin Northeast Tiger Drugs Co., Ltd.		(15,315)	–
Dividends paid		(12,180)	–
Net cash inflow from financing		21,909	26,321
(Decrease)/increase in cash and bank deposits		(7,158)	10,165
Cash and bank deposits at the beginning of the year		12,733	2,568
Cash and bank deposits at the end of the year		5,575	12,733

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

1 ORGANISATION AND OPERATIONS

Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") was incorporated in People's Republic of China ("Mainland China") on 20th November 1998 as a privately owned company with limited liability. Its principal activities are development and sale of medicines. On 11th February 2000, the Company acquired all the business, assets and liabilities of Jilin Northeast Tiger Drugs Co., Ltd. ("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 medicines. On 30th June 2000, the Company was converted into a joint stock company with limited liability in Mainland China.

On 28th February 2002, the Company issued 207,000,000 shares of RMB0.10 each by way of placing at HK\$0.26 per share, resulting in net proceeds of approximately RMB39.7 million. Since 28th February 2002, the Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain fixed assets are stated at fair value.

In the current year, the Company adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP1 (revised)	Presentation of financial statements
SSAP11 (revised)	Foreign currency translation
SSAP15 (revised)	Cash flow statements
SSAP34 (revised)	Employee benefits

The Company has also adopted SSAP35 "Government grants and disclosure of government assistance", which is effective for periods commencing on or after 1st July 2002, in advance of its effective date.

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

The directors consider the adoption of the above new SSAP had no material effect on amounts reported in prior year.

(b) 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.

(c) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(d) 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 purpose.

(e) Retirement scheme

The Company's contributions to the defined contribution retirement scheme are expensed as incurred.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets

(i) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(ii) Technical know-how

Expenditures on acquisition of technical know-how and computer software are recognised as intangible assets if they are probable that future economic benefits that are attributable to the assets will flow to the Company. Such acquisition expenditures are stated at costs and amortised on a straight-line basis over a period of 5 to 10 years to reflect the pattern in which the related economic benefits are recognised. The amortisation period and method are reviewed annually at each financial year-end.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(g) Fixed assets

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.

Land and buildings are stated at valuation. Independent valuations are performed periodically with the last valuation performed on 31st December 2001. In the intervening year, 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 profit and loss account.

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Fixed assets (continued)

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserve.

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	25-35 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.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

(h) Government grants

Government grants relating to immediate financial support to the Company rather than as an incentive to undertake specific expenditures are recognised as income in the period in which the Company qualifies to receive it.

(i) 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.

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) **Inventories (continued)**

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.

(j) **Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) **Cash and bank deposits**

Cash and bank deposits are carried in the balance sheet at cost.

(l) **Operating leases**

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lesser 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.

(m) **Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(n) **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Segment reporting

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

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.

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

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

	2002 RMB'000	2001 RMB'000
Balances from trading activities		
With shareholder:		
Amounts due from Jilin Far East Pharmaceutical Holdings Co., Ltd. ("FE Holdings"), the major shareholder		
– Included in accounts receivable of the Company	511	7,051
– Included in accounts receivable of the Company and was derived from the acquisition of NT Drugs	–	2,012
With other related parties:		
Amounts due from other related parties		
– Included in accounts receivable	361	2,224
Amounts due to other related parties		
– Included in accounts payable	(126)	(95)

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

3 RELATED PARTY TRANSACTIONS (CONTINUED)

	2002 RMB'000	2001 RMB'000
Balances from other activities		
With shareholder:		
Amounts due from FE Holdings	4,233	26,207
With other related parties:		
Amounts due from/(to) other related parties		
– Hailaer City Yidaitianjiao Pharmaceutical Co., Ltd. ("Hailaer"), a company directly owned by FE Holdings	(2,052)	2,128
– Yakeshi Northeast Tiger Pharmaceutical Co., Ltd. ("Yakeshi"), an associate of FE Holdings	–	2,404
– Jilin City Far East Water Supply Co., Ltd. ("FE Water"), a company directly owned by FE Holdings	61	473
– Xu Dao Tian, a director of the Company	–	320
– Xu Zhe, a director of the Company	1,353	1,380
– Xu Dao Ping, sibling of a director of the Company, Xu Dao Tian	11	–
– Jilin You Lian Wei Shi Industrial Co., Ltd., ("You Lian") a company owned by Xu Dao Tian, a director of the Company	(84)	(1,401)

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

3 RELATED PARTY TRANSACTIONS (CONTINUED)

(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 years:

	2002 RMB'000	2001 RMB'000
Transactions with shareholder:		
Purchases from FE Holdings	–	36
Sales to FE Holdings	151	5,653
Goods returned to FE Holdings	4,454	–
Transactions with other related parties:		
Sales to Hailaer	–	309
Purchases from other related parties		
– Hailaer	–	60
– You Lian	633	591

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.

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

Related parties	2002 RMB'000	2001 RMB'000	Maximum balance outstanding during the year RMB'000
FE Holdings	4,233	26,207	26,207
Hailaer	–	2,128	2,128
Yakeshi	–	2,404	2,404
FE Water	61	473	473
Xu Dao Tian	–	320	320
Xu Zhe	1,353	1,380	1,910
Xu Dao Ping	11	–	705

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

4 TURNOVER

Substantially all of 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 value-added tax ("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

	2002 RMB'000	2001 RMB'000
Government subsidies	1,819	2,784
Interest income on bank deposits	24	45
Others	–	47
	1,843	2,876

Pursuant to the agreements between the government authorities and the Company, the Company was entitled to receive subsidies for technology innovation. 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 23).

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

6 OPERATING PROFIT

Operating profit is stated after charging the following:

	2002 RMB'000	2001 RMB'000
Cost of inventories sold	35,674	36,078
Staff costs excluding directors' emoluments (see Note 11)		
– Salaries and wages	3,721	2,983
– Provision for staff and workers' bonus and welfare fund	521	418
– Contributions to defined contribution pension plan	882	748
Write-off of obsolete inventories	126	135
Provision for slow moving and obsolete inventories	312	–
Provision for doubtful receivables	7,399	3,885
Amortisation of intangible assets	1,613	1,200
Loss on revaluation of fixed assets	–	188
Depreciation of fixed assets	3,465	1,609
Operating leases	–	70
Research and development costs	915	826
Auditors' remuneration	600	477

7 FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest on bank loans	1,413	350
Interest on other borrowings		
– Wholly repayable on demand	2	–
– Wholly repayable within five years	–	2
Bank charges	20	8
	1,435	360

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

8 TAXATION

The amount of taxation charged to the profit and loss account represents:

	2002 RMB'000	2001 RMB'000
Mainland China enterprise income tax ("EIT")		
– Current EIT	2,547	4,830
– EIT arising from timing difference of sales recognition	1,612	167
	4,159	4,997

The Company was established in Jilin High-Technology Development Zone, Mainland China. The applicable enterprise income tax rate was 15% for the years ended 31st December 2001 and 2002.

9 DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31st December 2002 (2001: Nil).

10 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st December 2002 is based on the Company's profit attributable to shareholders of approximately RMB12,853,000 (2001: RMB22,030,000) and the weighted average number of 713,193,966 (2001: 539,654,240) shares in issue during the year. No diluted earnings per share was presented as there were no diluted potential ordinary shares issued for each of the two years.

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

	2002 RMB'000	2001 RMB'000
Emoluments for executive directors		
– Salaries, allowances and benefits-in-kind	124	115
– Pension scheme contribution	31	29
Emoluments for non-executive directors		
– Salaries, allowances and benefits in kind	–	–
– Pension scheme contribution	–	–
	155	144

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

	2002	2001
Nil – RMB1,060,000 (equivalent to HK\$1,000,000)	7	7

The seven directors received individual emoluments of approximately RMB42,000, RMB31,000, RMB40,000, RMB42,000, Nil, Nil and Nil for the year ended 31st December 2002 and approximately RMB39,000, RMB29,000, RMB37,000, RMB39,000, Nil, Nil and Nil for the year ended 31st December 2001.

No director waived any emoluments during the two years ended 31st December 2002.

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

	2002	2001
Number of directors	4	3
Number of employees	1	2
	5	5

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

Emoluments payable to the five highest paid individuals (including directors and employees) during the year are as follows:

	2002 RMB'000	2001 RMB'000
Salaries, allowances and benefits-in-kind	357	156
Retirement benefits	42	39
	399	195

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

	2002	2001
Nil – RMB1,060,000 (equivalent to HK\$1,000,000)	5	5

During the two years ended 31st December 2002, 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 Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

12 RETIREMENT SCHEME

The Company participates in defined contribution retirement schemes organised by the relevant local government authorities in Mainland China. Each employee covered by these schemes is entitled, after retirement from the Company, to a pension 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 employees' salaries.

The Company has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Company (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK\$1,000 per month and thereafter contributions are voluntary.

The details of the pension contributions made by the Company, which have been dealt with in the profit and loss account of the Company for the two years ended 31st December 2002, are as follows:

	2002 RMB'000	2001 RMB'000
Contributions to retirement scheme	913	777

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

13 FIXED ASSETS

Movements of fixed assets are as follows:

	2002					2001	
	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	7,374	19,833	13,079	2,105	1,286	43,677	23,024
Additions	11,582	62,974	4,662	324	4,787	84,329	2,765
Transfer from construction-in-progress	–	–	–	–	–	–	10,566
Revaluation	–	–	–	–	–	–	7,322
End of year	18,956	82,807	17,741	2,429	6,073	128,006	43,677
Representing:							
At cost	11,582	62,974	17,741	2,429	6,073	100,799	16,470
At valuation	7,374	19,833	–	–	–	27,207	27,207
	18,956	82,807	17,741	2,429	6,073	128,006	43,677
Accumulated depreciation:							
Beginning of year	(717)	(853)	(1,038)	(177)	(305)	(3,090)	(857)
Charge for the year	(218)	(1,816)	(907)	(281)	(243)	(3,465)	(1,609)
Revaluation	–	–	–	–	–	–	(624)
End of year	(935)	(2,669)	(1,945)	(458)	(548)	(6,555)	(3,090)
Net book value:							
End of year	18,021	80,138	15,796	1,971	5,525	121,451	40,587
Beginning of year	6,657	18,980	12,041	1,928	981	40,587	22,167

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

13 FIXED ASSETS (CONTINUED)

The Company's land use rights and buildings were appraised by Sallmanns (Far East) Limited, independent professional valuer, on 31st December 2001. 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 net book value of the Company's land use rights and buildings of approximately RMB6,886,000 as of 31st December 2001 was credited to the revaluation reserve (see Note 23). A decrease in net book value of the Company's buildings of approximately RMB188,000 was charged to profit and loss account in 2001.

In the opinion of the directors, the carrying value of the revalued land use rights and buildings as of 31st December 2002 is not materially different from that arrived by Sallmanns (Far East) Limited as of 31st December 2001.

The carrying amount of the revalued land use rights and buildings would have been approximately RMB18,268,000 (2001: RMB18,852,000) as of 31st December 2002 had they been stated at cost less accumulated depreciation.

Buildings and machinery with net book value of approximately RMB22,268,000 (2001: RMB26,037,000) were pledged as security for the Company's short-term bank loans.

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

14 INTANGIBLE ASSETS

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
Year ended 31st December 2002			
Opening net book value	14,800	55	14,855
Acquisition of computer software	–	168	168
Amortisation charge	(1,600)	(13)	(1,613)
Closing net book value	13,200	210	13,410
Year ended 31st December 2001			
Cost	16,000	223	16,223
Accumulated amortisation	(2,800)	(13)	(2,813)
	13,200	210	13,410
Year ended 31st December 2001			
Cost	16,000	55	16,055
Accumulated amortisation	(1,200)	–	(1,200)
	14,800	55	14,855

As of 31st December 2002, there was an outstanding payable of approximately RMB1,770,000 (2001: RMB4,790,000) in relation to acquisition of technical know-how.

15 INVENTORIES

Inventories consists of:

	2002 RMB'000	2001 RMB'000
Raw materials	6,013	5,867
Work-in-progress	2,553	2,225
Finished goods	3,867	12,794
Less: Provision for slow moving and obsolete inventories	(312)	–
	12,121	20,886

As of 31st December 2002, the carrying amount of finished goods that are carried at net realisable value amounted to approximately RMB3,580,000 (2001: RMB12,794,000).

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

16 ACCOUNTS RECEIVABLE

	2002 RMB'000	2001 RMB'000
Accounts receivable	64,217	49,107
Less: Provision for doubtful receivables	(14,724)	(7,325)
	49,493	41,782

The credit terms granted to customers are ranged from 90 to 120 days. Aging analysis of accounts receivable is as follows:

	2002 RMB'000	2001 RMB'000
Aged:		
0 to 30 days	32,068	14,112
31 to 60 days	5,415	6,278
61 to 90 days	4,077	3,516
91 to 180 days	5,954	5,025
181 to 270 days	4,111	8,465
271 to 365 days	2,092	3,171
Over 365 days	10,500	8,540
	64,217	49,107

17 PREPAYMENTS AND OTHER CURRENT ASSETS

	2002 RMB'000	2001 RMB'000
Advances to staff	4,054	3,918
Other receivable*	–	7,000
Deferred share issue expenses	–	4,942
Others	2,209	1,564
	6,263	17,424

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

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

18 SHORT-TERM BORROWINGS

Short-term borrowings comprises:

	2002 RMB'000	2001 RMB'000
Bank loans (Note a)	25,000	23,000
Other borrowings		
– Current portion of long-term borrowings (Note b)	10,020	–
	35,020	23,000

Notes:

(a) Bank loans

As of 31st December 2002, the Company had short-term bank loans of RMB25,000,000 (2001: RMB23,000,000) which bore interest at 5.31% per annum and were secured by buildings and machinery of the Company (see Note 13).

(b) Other borrowings

As of 31st December 2002, there was an interest-free unsecured loan of RMB10,000,000 (2001: RMB8,000,000) 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 Powder and Yong Chong Cao Jun Powder Capsule. According to the agreement, upon the completion of the development project, the Company can determine to repay the loan by cash, or by issuance of shares of the Company to the Lender. Pursuant to an undertaking dated 15th 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 loan amounted to RMB20,000 (2001: RMB20,000) from an independent third party was unsecured, bore interest at 5.31% per annum and was repayable on demand.

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

19 ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	2002 RMB'000	2001 RMB'000
Aged:		
0 to 1 month	3,591	6,822
1 to 6 months	486	354
6 to 12 months	4	237
1 to 2 years	137	163
Over 2 years	524	361
	4,742	7,937

20 TAXATION PAYABLE

	2002 RMB'000	2001 RMB'000
VAT	6,852	4,130
EIT	–	30
EIT arising from timing difference of sales recognition	2,100	488
Prepaid EIT	(971)	–
Withholding individual income tax	–	183
	7,981	4,831

21 ACCRUALS AND OTHER PAYABLES

	2002 RMB'000	2001 RMB'000
Payable to the shareholders of NT Drugs	–	15,315
Provision for staff welfare	385	855
Payable for PRC statutory contribution	1,691	1,138
Payable for construction-in-progress	–	1,518
Payable for fixed assets	3,188	–
Payable to suppliers	1,211	1,351
Deposit from salesmen	–	2,600
Other accruals	961	1,038
	7,436	23,815

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

22 SHARE CAPITAL

	No. of shares	RMB'000
Authorised		
As of 1st January 2002, ordinary shares of RMB0.10 each	539,654,240	53,965
Increase in authorised ordinary share capital	207,000,000	20,700
As of 31st December 2002	746,654,240	74,665
Issued and fully paid		
As of 1st January 2002, ordinary shares of RMB0.10 each	539,654,240	53,965
Issue of shares	207,000,000	20,700
As of 31st December 2002, ordinary shares of RMB0.10 each	746,654,240	74,665

On 28th February 2002, the Company issued 207,000,000 shares of RMB0.10 each by way of placing at HK\$0.26 per share, resulting in net proceeds of approximately RMB39.7 million. The excess over the par value of the shares was credited to the capital reserve account.

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

23 RESERVES

	Capital reserve RMB'000	Statutory public welfare fund RMB'000	Statutory revenue reserve RMB'000	Retained earnings RMB'000	Total reserves RMB'000
Balances as of 1st 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 1st January 2002	11,424	2,275	4,549	22,072	40,320
Profit attributable to shareholders for the year	–	–	–	12,853	12,853
Premium on issue of shares	36,387	–	–	–	36,387
Share issue expenses	(17,360)	–	–	–	(17,360)
Transfer to capital reserve (see Note 5)	1,819	–	–	(1,819)	–
Profit appropriated to reserve funds	–	1,399	700	(2,099)	–
Balances as of 31st December 2002	32,270	3,674	5,249	31,007	72,200

According to the relevant regulations in 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 Board of 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.

23 RESERVES (CONTINUED)

When the statutory revenue reserve is not sufficient to cover prior years' losses, 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.

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 31st December 2002, no statutory revenue reserve was transferred into share capital subsequent to the Company's reorganisation to a joint 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 accounting principles generally accepted in Hong Kong.

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

24 CASH FLOW STATEMENT

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

	2002 RMB'000	2001 RMB'000
Profit before taxation	17,012	27,027
Depreciation	3,465	1,609
Amortisation of intangible assets	1,613	1,200
Provision for doubtful receivables	7,399	3,885
Provision for slow moving and obsolete inventories	312	–
Loss on revaluation of fixed assets	–	188
Interest income	(24)	(45)
Interest expenses	1,415	352
Operating profit before working capital changes		
Decrease/(increase) in inventories	8,453	(551)
Increase in accounts receivable	(15,110)	(8,343)
(Increase)/decrease in prepayments and other current assets	(781)	4,449
(Decrease)/increase in accounts payable	(3,195)	3,498
Increase/(decrease) in taxation payable	2,539	(330)
Increase in advance from customers	2,707	3,542
(Decrease)/increase in accruals and other payables	(2,734)	3,725
Cash generated from operations	23,071	40,206
Interest paid	(1,415)	(352)
Income tax paid	(3,548)	(5,130)
Net cash inflow generated from operations	18,108	34,724

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

24 CASH FLOW STATEMENT (CONTINUED)

(b) Analysis of changes in financing during the year

	Dividend payable		Share capital including premium		Borrowings	
	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of 1st January	12,180	12,180	53,965	53,965	31,020	31,020
Dividends paid	(12,180)	-	-	-	-	-
Issue of shares	-	-	39,727	-	-	-
New borrowings	-	-	-	-	4,000	-
As of 31st December	-	12,180	93,692	53,965	35,020	31,020

25 COMMITMENTS

(a) Capital commitments for fixed assets

	2002 RMB'000	2001 RMB'000
Contracted but not provided for	-	4,270
Authorised but not contracted for	-	-
	-	4,270

(b) Commitments under operating leases

As of 31st December 2002, the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002 RMB'000	2001 RMB'000
Not later than one year	-	70
Later than one year and not later than five years	-	175
Later than five years	-	-
	-	245

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002

26 SUBSEQUENT EVENT

On 10th January 2003, the Company entered into an agreement with FE Holdings to acquire a property at a cash consideration of approximately RMB7.4 million (approximately HK\$6.9 million) for the construction of Good Manufacturing Practice compliant plant.

27 ULTIMATE HOLDING COMPANY

The Board of Directors consider Jilin Far East Pharmaceutical Holdings Co., Ltd., a company incorporated in Mainland China, as the ultimate holding company.

28 APPROVAL OF REPORT

The report was approved by the Board of Directors on 27th March 2003.

Financial Information

A summary of the results and of the assets and liabilities of the Company for the past three financial years is set out below:

	Year ended 31st December		
	2002 RMB'000	2001 RMB'000	2000 RMB'000
Results			
Profit attributable to shareholders	12,853	22,030	21,934

	As of 31st December		
	2002 RMB'000	2001 RMB'000	2000 RMB'000
Assets and liabilities			
Total assets	213,971	185,573	122,092
Total liabilities	(67,106)	(91,288)	(56,723)
Shareholders' funds	146,865	94,285	65,369