



東北虎藥業股份有限公司

NORTHEAST TIGER PHARMACEUTICAL CO., LTD.

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

Interim Report 2003

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 ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS
(unaudited)

- Turnover of the Company for the six months ended 30 June, 2003 was approximately RMB29,580,000, representing a decrease of 7% as compared with the same period in the previous year.
- Profit attributable to shareholders of the Company ("Shareholders") for the six months ended 30 June, 2003 was approximately RMB5,202,000, representing a decrease of approximately 37% as compared with same period in the previous year.
- Earnings per share ("Shares") of the Company for the six months ended 30 June, 2003 was approximately RMB0.7 cents.
- The Directors do not recommend the payment of any dividend for the six months ended 30 June, 2003.



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BUSINESS REVIEW AND PROSPECTS

Business Review of the Company

During the period under review, the wide spread of Severe Acute Respiratory Syndrome ("SARS") virus in mainland China has a negative impact on the Company's performance, even normal sale and marketing activities have been affected by the strictly enforced quarantine rules. In order to maintain the continuity of normal business operations and safeguard the health of all employees, the Company has been taking strict precautionary measures, contingency plans have been adopted, and staff rotation schedules have been carefully arranged.

The unfavorable impact of the global economic downturn still shows no sign of recovery and the competition within the industry is still keen. The range of products falling under tenders of the PRC's central bidding system has increased. The prices of the government-pricing pharmaceutical products are still subject to adjustment. All these facts have negative effect on the Company's turnover.

Faced with increasingly intense competition in the pharmaceutical market in the PRC, the Company has displayed both its unique ability to react rapidly to the changing market and good strength, and managed to minimize the decline of its turnover which only slips approximately 7%. During the period under review, the Company had devoted more effort to stimulate sales, by participating in technical conferences and trade fairs as well as conducting regular customers' visits.

The Company advocated the modernization of Chinese medicine and improved the standard of production technique of Chinese medicine. During the period under review, the Company continued to conduct staff training, perfect the customer supporting facilities, examined the change in market trend and fully utilized the existing production resources for the further planning and design of the whole production structure to create a competitive edge for the expansion of production scale and capacity.

For the six months ended 30 June, 2003, turnover and profit attributable to Shareholders amounted to approximately RMB29,580,000 and RMB5,202,000 respectively, representing a decrease of approximately 7% and 37% respectively as compared with the corresponding period in 2002. The decrease in the profit attributable to Shareholders was mainly due to the dramatically increased depreciation which surged approximately 151% from approximately RMB922,000 to approximately RMB2,315,000. The increase of depreciation was resulted from the establishment of GMP compliant plant in last year.

During the period under review, the Company and its products have received many awards and honours from various organisations. These awards are listed as follows:

Entity/Products	Title of award/certificates	Issuer
The Company	Enterprise of Excellent Reliability in China	State Administration for Industry and Commerce
The Company	Outstanding Quality Control Award	Technology Quality Supervisory Administration/Personnel Administration of Jilin Province
Shi Long Blood Clean Granules	Year 2002 Famous Brand in Jilin Town/Private Enterprises	Town Enterprises Administration/Private Enterprises Development Bureau of Jilin Province
The Company	Enterprise with Model Quality Control	Town Enterprises Administration/Private Enterprises Development Bureau/Technology Quality Supervisory Administration of Jilin Province
The Company	Year 2002 Enterprise with Advanced Economy	Jilin City Government

Marketing and products

In respond to the rapidly changing market conditions, the Company has steadfastly adjusted its overall sales and marketing strategies. Measures have been undertaken to maintain a close relationship with customers and to increase awareness of the Company’s brand. The Company also restructured its product mix, focus on its fund and research efforts on development of new products which would have great potential commercial value, so as to expand the product range of the Company and to increase the overall competitiveness of the Company. During the period under review, two products namely Xin Nao Kang Capsule (心腦康膠囊) and Jiang Zhi Nin Granules (降脂寧顆粒) have been launched to market. The Company expects these two new products to make good contribution to its profit.

Research and development

The Directors believe that research and development is vital to the business development and competitiveness of the Company. To keep abreast with technological advancements, the Company will promptly develop new pharmaceutical products and continuously strengthen its research and development capability. Besides the continued development of new category I and II medicines, the Company has also focused on innovative health food products. The latter generally has a shorter research and development cycle, and can satisfy market demands better. Currently, the Company is conducting research and development of a new Chinese medicine, Fu Fang Ban Lan Gen Troche (板蘭根含片).

The Company has also been seeking opportunities for strategic cooperation with research institutes and universities. During the period of “SARS” outbreak, the Company has donated a batch of products and goods to the University of Tian Jin Medical Science (天津醫科大學).





Prospects

Looking ahead, the Directors believe that keen competition will continue to affect the profit margin of the Company. However, the Chinese medical sector is a market with tremendous growth potential. With the improving living and educational standards in the PRC, the general public has become more health conscious and demands better health care. This should create plenty of opportunities for companies like us to explore the market. With the experienced management team and its strengthened research and development capabilities, the Company is well-positioned to capture suitable business opportunities. At the same time, we will make every effort to improve the operating results. New measures have been initiated to control operation costs, integrate logistics processes and improve production techniques to achieve cost saving so as to improve the Company's profitability and achieve better return for its Shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2003, the Company had total assets of approximately RMB 226,131,000 which were financed by current liabilities of approximately RMB72,024,000, long-term liabilities of RMB2,040,000 and shareholders equity of approximately RMB152,067,000.

The Company generally services its debts primary through cash generated from its operations. The financial position of the Company remains healthy. As at 30 June, 2003, the Company had cash and bank balances of approximately RMB1,906,000, and short-term borrowings of RMB35,020,000, including unsecured interest-free loan of RMB10,000,000 from China Hi-Tech Investment Company. Taken into consideration of its current financial resources, the Directors believe that the Company shall have adequate fund for its continual operation and development.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

Actual business progress up to 30 June, 2003

Establishment of a new GMP compliant plant

Installation of facilities, software fine-tuning and trial run of GMP compliant plant

Commercial production commenced

Expansion of the sales team and network

1. Expansion of Hong Kong market

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

2. Expansion of sales team to 225

The number of salesperson has reached 225



Research and development of new products

- | | |
|--|---|
| 1. Xie Sha Tong Infusion Fluid (血塞通輸液): Completion of clinical trial; preparation for filing an application for trial production approval from the SDA | Waiting for approval of clinical trial from the SDA |
| 2. Fu Fang Ge Gen Powder Injection (複方葛根粉針): Clinical trials | Advanced technology research result based on New Medicine Research Guideline was not satisfactory (no enough Fu Fang Co-effect). The Company has ceased this product's research and development |
| 3. Fu Fang Ge Gen Infusion Fluid (複方葛根輸液): Clinical trials | Stabilization testing can not comply with the new medicine certificate standard. The Company has ceased this product's research and development |

Expansion of research and development capacity

Completion of construction of research centre; installation of equipment; commencement of operation

Operation commenced

Establishment of a website

Optimizing the information services of the website; official launch of website

Completed construction of LAN, and launched Company's web page. However, as the medicine administration authority has stringent control over the approval of medical website, in order to avoid loss, further website construction has been ceased.

COMPARISON OF USE OF NET PROCEEDS

	Up to 30 June, 2003	
	Planned use of the net proceed as set out in the Prospectus (HK\$' million)	Actual use of the net proceeds (HK\$' million)
Establishment of a new GMP compliant plant	20.0	28.0
Expansion of sales team and network	2.0	1.6
Research and development of new products	3.6	0.3
Expansion of research and development capacity	2.0	1.2
Establishment of a website	2.0	0.2
Use of the net proceeds	29.6	31.3

Up to 30 June, 2003, the Company had utilized about HK\$31.3 million of the net placing proceeds. The over-utilization in establishment of new GMP compliant plant was mainly due to the earlier commencement of commercial production of the GMP compliant plant. 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 is due to suspension of further website development. The residual fund due to abandonment 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 for other projects' research and development in future.

RESULTS (UNAUDITED)

The board of Directors ("Board") is pleased to announce the unaudited results of the Company for the six months ended 30 June, 2003, together with the comparative figures for the corresponding periods of the previous financial year, as follows:

	Notes	Six months ended 30 June,		Three months ended 30 June,	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	b	29,580	31,699	14,026	14,716
Cost of sales		(13,178)	(13,382)	(5,849)	(6,205)
Gross profit		16,402	18,317	8,177	8,511
Other revenue	c	1	1,404	1	404
Distribution and selling expenses		(3,255)	(4,953)	(1,808)	(2,133)
General, administrative and other operating expenses		(6,349)	(4,563)	(3,216)	(2,926)
Operating profit	d	6,799	10,205	3,154	3,856
Finance costs		(679)	(445)	(335)	(101)
Profit before taxation		6,120	9,760	2,819	3,755
Taxation	e	(918)	(1,464)	(423)	(669)
Profit attributable to shareholders		5,202	8,296	2,396	3,086
Dividends		N/A	N/A	N/A	N/A
		RMB	RMB	RMB	RMB
Earnings per Share – basic	f	0.7 cents	1.2 cents	0.3 cents	0.4 cents



CONDENSED BALANCE SHEET

		At 30 June, 2003 (Unaudited) RMB'000	At 31 December, 2002 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets, net	h	129,725	121,451
Intangible assets, net	i	16,286	13,410
Prepayment for fixed assets		—	—
		146,011	134,861
CURRENT ASSETS			
Inventories		14,909	12,121
Accounts receivable, net	j	39,793	49,493
Prepayment and other current assets		23,512	6,263
Amounts due from related parties		—	5,658
Cash and cash equivalents		1,906	5,575
		80,120	79,110
CURRENT LIABILITIES			
Short-term borrowings		35,020	35,020
Accounts payable	k	8,756	4,742
Taxation payable		7,717	7,981
Advance payments from customers		150	8,021
Payable for intangible assets		—	1,770
Amounts due to related parties		—	2,136
Dividends payable		—	—
Accruals and other payables		20,381	7,436
		72,024	67,106
NET CURRENT ASSETS			
		8,096	12,004
TOTAL ASSETS LESS CURRENT LIABILITIES			
		154,107	146,865
NON-CURRENT LIABILITIES			
Long-term borrowings		2,040	—
		152,067	146,865
CAPITAL AND RESERVES			
Share capital	l	74,665	74,665
Reserves		77,402	72,200
TOTAL CAPITAL AND RESERVES			
		152,067	146,865



CONDENSED STATEMENT OF CASH FLOW

	Six months ended 30 June, 2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000
Net cash inflow from operating activities	13,182	31,520
Net cash outflow from returns on investments and servicing of finance	(679)	(445)
Tax paid, net	(4,052)	(5,078)
Net cash outflow from investing activities	(14,160)	(45,689)
Net cash outflow before financing	(5,709)	(19,692)
Net cash inflow from financing	2,040	43,727
Increase in cash and cash equivalents	(3,669)	24,035
Cash and cash equivalents at beginning of period	5,575	12,733
Cash and cash equivalents at end of period Represented by Cash and Bank Balances	1,906	36,768

Notes:

a. Accounting policy and basis of presentation

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"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention and certain fixed assets are stated at fair value.

In the current year, the Company adopted a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the HKSA. The Directors considered the adoption of these SSAPs had no material effect on the results of the current or prior accounting period. Accordingly, no prior period adjustment has been required.

The principal accounting policies used in the preparation of the unaudited financial statement of the Company for the six months ended 30 June, 2003 are consistent with those used in the audited accounts issued for the year ended 31 December, 2002.

b. Turnover

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



c. Other revenue

	Six months ended 30 June,		Three months ended 30 June,	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Government subsidies	0	1,404	0	404
Others	1	—	1	—
	1	1,404	1	404

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

d. Operating profit

Operating profit is stated after charging the following items:

	Six months ended 30 June,		Three months ended 30 June,	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
– Interest expenses	693	448	339	205
– Depreciation of fixed assets	2,315	922	1,260	471
– Amortization of intangible assets	973	824	480	412

e. Taxation

The Company was established in the Jilin High-Technology Development Zone, the PRC. It is subject to enterprise income tax at a rate of 15%.

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.

During the period under review, the Company did not have any significant un-provided deferred tax liabilities.

f. Earnings per Share

The calculation of basic earnings per Share 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 six months and three months ended 30 June, 2003 are 746,654,240 and 746,654,240 respectively (2002: 679,179,102 and 746,654,240 respectively).

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

g. Segment reporting

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



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h. Fixed assets, net

	Six months ended 30 June, 2003 (Unaudited) RMB'000	Twelve months ended 31 December, 2002 (Audited) RMB'000
Net book value, beginning of period/year	121,451	40,587
Additions	10,589	84,329
Revaluation	-	-
Disposals	-	-
Depreciation	(2,315)	(3,465)
Net book value, end of period/year	129,725	121,451

i. Intangible assets, net

	Six months ended 30 June, 2003 (Unaudited) RMB'000	Twelve months ended 31 December, 2002 (Audited) RMB'000
Net book value, beginning of period/year	13,410	14,855
Additions	3,849	168
Disposals	-	-
Amortisation	(973)	(1,613)
Net book value, end of period/year	16,286	13,410

Included in the cost of intangible assets were technical know-how and the accounting software. The technical know-how was amortized over 10 years.

j. Accounts receivable, net

	Six months ended 30 June, 2003 (Unaudited) RMB'000	Twelve months ended 31 December, 2002 (Audited) RMB'000
Accounts receivable	54,517	64,217
Less: Provision for doubtful receivables	(14,724)	(14,724)
	39,793	49,493



Aging analysis of accounts receivable is as follow:

	Six months ended 30 June, 2003 (Unaudited) RMB'000	Twelve months ended 31 December, 2002 (Audited) RMB'000
Aged:		
0 – 30 days	6,784	32,068
31 – 60 days	4,209	5,415
61 – 90 days	4,227	4,077
91 – 180 days	8,749	5,954
181 to 270 days	6,009	4,111
271 – 365 days	2,931	2,092
over 365 days	21,608	10500
	<hr/> 54,517	<hr/> 64,217

To reduce exposure to credit risk, the Company closely monitors the outstanding balance owed by customers, follows up each debtor overdue more than 120 days and enforces collection of the outstanding balances through salesperson.

k. Accounts payable

The aging analysis of accounts payable is as follows:

	Six months ended 30 June, 2003 (Unaudited) RMB'000	Twelve months ended 31 December, 2002 (Audited) RMB'000
Aged:		
0 to 1 month	5,167	3,591
1 to 6 months	897	486
6 to 12 months	–	4
1 to 2 years	–	137
2 years and over	2,692	524
	<hr/> 8,756	<hr/> 4,742

l. Share capital

	Six months ended 30 June, 2003		Twelve months ended December, 2002	
	<i>Number of shares</i>	<i>Amount RMB'000</i>	<i>Number of shares</i>	<i>Amount RMB'000</i>
Issued and fully paid (RMB0.10 each)				
Beginning of period/year	746,654,240	74,665	539,654,240	53,965
Placing of shares	-	-	207,000,000	20,700
Repurchase of shares	-	-	-	-
End of period/year	746,654,240	74,665	746,654,240	74,665



MOVEMENT IN RESERVES

The movements of reserves are as follows:

	Capital reserve RMB'000	Statutory public welfare fund RMB'000	Statutory revenue reserve RMB'000	Discretionary revenue reserve RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total reserves RMB'000
Balances as of 1 January, 2002	11,424	2,275	4,549	-	22,072	40,320
Profit attributable to shareholders for the period	-	-	-	-	8,296	8,296
Premium on issue of H shares, net of share issuing expenses	19,027	-	-	-	-	19,027
Government subsidies	1,404	-	-	-	(1,404)	-
Balances as of 30 June, 2002	31,855	2,275	4,549	-	28,964	67,643
Balances as of 1 January, 2003	32,270	3,674	5,249	-	31,007	72,200
Profit attributable to shareholders for the period	-	-	-	-	5,202	5,202
Government subsidies	-	-	-	-	-	-
Balances as of 30 June, 2003	32,270	3,674	5,249	-	36,209	77,402

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June, 2003 (2002: nil).

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

As at 30 June 2003, the interests and short positions of the Directors and Supervisors ("Supervisor") in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares

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



Save as disclosed above, none of the Directors, Supervisors and the chairman or their respective associates had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange.

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

As at 30 June 2003, the Company was not a party to any arrangements to enable the Directors and Supervisors 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 or their spouses or children under the age of 18 had any right to subscribe the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Supervisor of the Company, as at 30 June, 2003, the persons or companies (not being a Director or Supervisor of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follow:

Long positions in Shares

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, as at 30 June, 2003, the Directors were not aware of any other person who had an interest or short position in the Shares of the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

None of the Directors and Supervisors, 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 (the "First Shanghai"), its directors, employees or associates, did not have any interest in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company as at 30 June, 2003.

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

AUDIT COMMITTEE

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

The audit committee had reviewed the Company's unaudited results for the six months ended 30 June, 2003 and was of the opinion that the preparation of unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

PRACTICES AND PROCEDURES OF THE BOARD

The Directors consider 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 six months' reporting 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.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders for their full support, and to all our dedicated, diligent, honorable staff.

By Order of the Board

Xu Zhe
Chairman

Jilin, the PRC
12 August, 2003