



東北虎藥業股份有限公司

NORTHEAST TIGER PHARMACEUTICAL CO., LTD.

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



Third Quarterly Report 2003

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

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (“Directors”) of Northeast Tiger Pharmaceutical Co., Ltd. (“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 nine months ended 30 September, 2003 was approximately RMB43,779,000, representing a decrease of approximately 13% as compared with the same period in the previous year.
- Profit attributable to shareholders of the Company ("Shareholders") for the nine months ended 30 September, 2003 was approximately RMB6,953,000, representing a decrease of approximately 40% as compared with same period in the previous year.
- Earnings per share of the Company ("Shares") for the nine months ended 30 September, 2003 was approximately RMB0.9 cents.
- The Directors do not recommend the payment of any dividend for the nine months ended 30 September, 2003.





RESULTS (UNAUDITED)

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

	Notes	Nine months ended 30 September, 2003		Three months ended 30 September, 2003	
		RMB'000	2002 RMB'000	RMB'000	2002 RMB'000
Turnover	b	43,779	50,223	14,199	18,524
Cost of sales		(20,232)	(23,522)	(7,054)	(10,140)
Gross profit		23,547	26,701	7,145	8,384
Other revenue	c	(3)	1,404	(4)	-
Distribution and selling expenses		(4,828)	(7,363)	(1,573)	(2,410)
General, administrative and other operating expenses		(9,484)	(6,888)	(3,135)	(2,325)
Operating profit	d	9,232	13,854	2,433	3,649
Finance costs		(1,052)	(766)	(373)	(321)
Profit before taxation		8,180	13,088	2,060	3,328
Taxation	e	(1,227)	(1,475)	(309)	(11)
Profit attributable to shareholders		6,953	11,613	1,751	3,317
Dividends		N/A	N/A	N/A	N/A
		RMB	RMB	RMB	RMB
Earnings per Share – basic	f	0.9 cents	1.7 cents	0.2 cents	0.4 cents

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 nine months ended 30 September, 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

	Nine months ended 30 September, 2003		Three months ended 30 September, 2003	
	RMB'000	2002 RMB'000	RMB'000	2002 RMB'000
- Government subsidies	-	1,404	-	-
- Others	(3)	-	(4)	-
	(3)	1,404	(4)	-

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

d. Operating profit

Operating profit is stated after charging the following items:

	Nine months ended 30 September, 2003		Three months ended 30 September, 2003	
	RMB'000	2002 RMB'000	RMB'000	2002 RMB'000
- Interest expenses	1,062	880	368	372
- Depreciation of fixed assets	3,593	1,538	1,279	616
- Amortization of intangible assets	1,411	1,227	481	419

e. Taxation

The Company was established in the Jilin High-Technology Development Zone, the People's Republic of China ("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 nine months and three months ended 30 September, 2003 are 746,654,240 and 746,654,240 respectively (2002: 679,170,724 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 i.e. the business of manufacture and sale of medicine products in the PRC. The Company also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no segment information is presented.

MOVEMENT IN RESERVES

The movements of reserves are as follows:

	Capital reserve 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	-	-	-	-	11,613	11,613
Premium on issue of H shares, net of share issuing expenses	19,027	-	-	-	-	19,027
Government subsidies	1,404	-	-	-	(1,404)	-
Balances as of						
30 September 2002	31,855	2,275	4,549	-	32,281	70,960
Balances as of						
1 January 2003	32,270	3,674	5,249	-	31,007	72,200
Profit attributable to shareholders for the period	-	-	-	-	6,953	6,953
Government subsidies	-	-	-	-	-	-
Balances as of						
30 September 2003	32,270	3,674	5,249	-	37,960	79,153

DIVIDENDS

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

BUSINESS REVIEW AND PROSPECTS

Business review

The Company is principally engaged in the manufacture and sale of Chinese medicine under the brand name of "Northeast Tiger" in the PRC as well as conducting pharmaceutical research and development. Capitalizing on its extensive sales and distribution network, the Company is also engaged in the distribution of general medicine of other brands produced by other pharmaceutical companies in the PRC.



During the period under review, turnover of the Company contracted from approximately RMB50,223,000 to RMB43,779,000, representing a decrease of approximately 13% as compared with the corresponding period in 2002. The decrease was mainly due to the keen competition within the markets and unfavorable impact of the global economic downturn. In addition, the outbreak of Severe Acute Respiratory Syndrome ("SARS") virus in the PRC has adversely affected the operations and sales of the Company, especially in the over-the-counter ("OTC") market which the Company has devoted increasing effort to broaden its market share. Scheduled promotion activities such as: exhibitions, academic seminars and other promotion activities were cancelled or reduced in scale as a result of the strictly enforced quarantine rule. To overcome such difficulties and turn challenge brought by SARS into opportunities, the Company has adopted active measures such as short distance delivery service to ensure normal progress of sales.

In the hospital market, based on different features of the target market, agents with better hospital market background were selected to strengthen the communication with major hospitals and adopted various cooperation formats to promote appropriate products. With focus on establishing the hospital market network and streamlining sales channels and network as a solid platform, despite the tough competition, the sales of main products have been quite well maintained.

For the nine months ended 30 September, 2003, profit attributable to Shareholders amounted to approximately RMB6,953,000, representing a decrease of approximately 40% 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 134% from approximately RMB1,538,000 to approximately RMB3,593,000. The increase of depreciation was resulted from the establishment of Good Manufacturing Practice ("GMP") compliant plant in last year.

Marketing and products

The aftereffect of the SARS on economic development may result in new changes in the pharmaceutical market which may result in production and operation of the Company facing severe challenge. In light of this, the Company has adopted market-orientated sales strategy, organization will be adjusted according to its region and nature of products, more competitive pricing strategies will be introduced to gain new market share under keen market condition. The training of the sales team has been strengthened to raise the staff quality.

The Company will also continue to strictly comply with the GMP standards and strengthen the quality control procedures. Production technology will be updated accordingly, and logistics processes will be reviewed periodically, with a view to achieving cost savings and increasing the profitability. Moreover, the Company will continuously



place great effort on enlarging its range of products to increase the overall competitiveness and new round of marketing and promotion work are now under proceeding in the view to boost sales and increase market share as well as brand awareness.

Research and development

In view of the changing market conditions, apart from keeping on the research and development of the existing research projects, the Company also reordered its priorities by focusing on the research and development of new products and enhancing production technology levels of existing products. Up to now, the research progress is satisfactory in terms of technological skill and cost effectiveness.

Prospects

With the retreat of SARS, the market environment has been gradually improving. The Company is fairly optimistic that its core business will recover and becoming more stable in the coming quarters. The Company will continuously strive to broaden its revenue base by introducing more new products including health supplement products, explore other potential markets to reduce its reliance currently placed on the PRC market and monitor its cost efficiency so that market competitive edge of the Company can be further enhanced.

The Company will closely observe the developments in the market, review the sales and marketing strategy from time to time, and continue to invest in projects which are in line with or complementary to our business objective so as to enhancing the Company's profitability and shareholders' value. In the mean time, the Company will continue to look for other pharmaceutical manufactures for possible cooperation so as to minimize the business risk, strengthen overall profitability as well as explore other potential markets including overseas market.

In conclusion, the Company will make every possible effort in improving its operating results, capture business opportunity to build up solid platform for future success and strive to ensure fruitful returns to shareholders.

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

As at 30 September, 2003, the interests and short positions of the Directors and supervisors of the Company ("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**

Name of Directors or Supervisors	Number of Domestic Shares personally interested
Xu Zhe	183,482,440
Xu Dao Tian	150,644,480
Liu Xiao Hong	1,888,790
Zhang Ya Bin	1,618,960
Leng Zhan Ren	1,349,140
	<u>338,983,810</u>

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 September, 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, as at 30 September, 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 September, 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 ("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 September, 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 nine months ended 30 September, 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 nine 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 our dedicated, diligent, honorable staff and to all shareholders for their full support.

By Order of the Board
Xu Zhe
Chairman

Jilin, the PRC
13 November, 2003