



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 2003 年報



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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

AUTHORISED REPRESENTATIVES

Liu Xiao Hong

Leng Zhan Ren

GEM STOCK CODE

8197

AUTHORISED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Lam Kai Yeung

AUDITORS

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

SPONSOR

First Shanghai Capital Limited

LEGAL ADVISORS

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 Board of Directors (the "Board") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company"), I hereby present to our shareholders the annual report of the Company for the year ended 31 December 2003.

Based in the City of Jilin in Jilin province, the Peoples Republic of China (the "PRC"), the Company is an emerging force in Chinese pharmaceutical industry. With Good Manufacturing Practice ("GMP") standard production facilities and modern logistics, the Company has achieved high manufacturing quality and business efficiency by applying state-of-art production and marketing techniques to traditional Chinese medicine products.

During the year under review, the Company endeavored to accelerate development of new products and enhanced its competitiveness through strengthening its quality management, refinement of operational procedure and adjustment of products mix so as to provide a solid base for its future growth.

During the year 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	Received time
The Company	Enterprise of Excellent Reliability in China	State Administration for Industry and Commerce	January 2003
The Company	Outstanding Quality Control Award	Technology Quality Supervisory Administration/ Personnel Administration of Jilin Province	February 2003
Shi Long Blood Clean Granules	Year 2002 Famous Brand within Jilin Town/Private Enterprises	Town Enterprises Administration/Private Enterprises Development Bureau of Jilin Province	February 2003
The Company	Enterprise with Model Quality Control	Town Enterprises Administration/Private Enterprises Development Bureau/Technology Quality Supervisory Administration of Jilin Province	February 2003



Chairman's Statement

Entity/Products	Title of award/ certificates	Issuer	Received time
The Company	Year 2002 Top 50 Private Enterprises	Jilin City Government	April 2003
Shi Long Blood Clean Granules	Certification of Qualification as a Major High and New Technology Project under the Torch Project of the State	High Technology Industry Development Centre established under the Torch Project of the Ministry of Science and Technology	March 2003
Yong Chong Cao Jun Power and Yong Chong Cao Jun Powder Capsule	Certification of Qualification as a Major High and New Technology Project under the Torch Project of the State	High Technology Industry Development Centre established under the Torch Project of the Ministry of Science and Technology	May 2003
The Company	Year 2002 Star Taxpayer among Private/Town Enterprises	Town Enterprises Administration/Private Enterprises Development Bureau/Technology Quality Supervisory Administration of Jilin Province	April 2003
The Company	Year 2002 Consumer Service Satisfaction Enterprise	Jilin City Drug Administration/User Committee of Jilin City Quality Association	August 2003
The Company	A Excellent High and New Technology Enterprise under the Torch Project of the State	Ministry of Science and Technology	September 2003
The Company	Year 2002 Level A Reliable Taxpayer	Jilin City State Taxation Bureau	July 2003



Chairman's Statement

PRODUCTS AND MARKETING

Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsules (蛹蟲草菌粉及蛹蟲草菌粉膠囊), is registered as a new Chinese medicine under State Category I, which has been proved to be a nutritional supplement to strengthen the kidney and lungs of human body, especially, it has been regarded as an important medical breakthrough in curing chronic bronchitis. The State Food and Drugs Administration of the PRC had granted production permit for the medicine in April 2003. We expect the launching of the product will provide strong contributions to the Company in future as they have huge market potential in overseas and the PRC and is highly profitable with high entry barriers. The research and development ("R&D") of the product was really expensive and time consuming. The promotion is currently undergoing. All senior management of the Company, together with the experts in our R&D Department, has been travelling around different provinces throughout the PRC to introduce this new product to potential customers and investors. We expect that it will be a new major source of income for the Company in the future.

As stated above, Shi Long Blood Clean Granules (石龍清血顆粒) and Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsules (蛹蟲草菌粉及蛹蟲草菌粉膠囊), have obtained Certification of Qualification as a Major High and New Technology Project under the Torch Project of the State in 2003. Furthermore, the Company was also conferred as A Excellent High and New Technology Enterprise under the Torch Project of the State in 2003. The grant was awarded based on technological excellence in innovation and marketable potential in the research and development of a new drug project. The Torch Project was established to identify, assist and fund outstanding high-technology projects to promote and nurture China's high-technology industry development to international standards, as well as improve the standard of living through high technology advancement. The Directors believe it should give the Company another way of funding for R&D.

Certain of our products had been recognised as recommended products to markets of the European Union by the relevant organisations. In order to reduce reliance on the PRC market, the Company will participate in trade fairs in overseas and visit agents in overseas in order to explore new markets. Certain overseas distributors have shown their interests in our products and are willing to act as agents to distribute our products in various countries. The Company is also considering using overseas consultants in searching strategic alliance with overseas pharmaceutical companies.

Furthermore, suitable adjustments in product range and development of advanced and high value-added products will be undertaken according to market changes in order to improve market coverage. The Company will continue to adhere to its core business as production of Chinese patent medicine, and extend to areas including development of the production bases for Chinese medicinal raw materials.



Chairman's Statement

QUALITY CONTROL SYSTEM

The Company has implemented rigorous and comprehensive quality control procedures for each phase of the production process. This quality control system has obtained ISO9002 certificate in 1994. During the year under review, the Company has been conferred a reward as an Enterprise with Model Quality Control.

RESEARCH AND DEVELOPMENT

The R&D centre of the Company is well equipped and productive. It was recognised as a provincial-class Technology Centre in as early as in February 2001. To keep abreast of technological advancement, the Company has been seeking possible cooperation with research institutes and universities to conduct R&D on various kinds of Chinese medicine products. The Company will continue to put great emphasis on primary R&D to accelerate the development of new medicine projects as well as secondary research projects such as projects on application of new technique according to market demand and requirement of production. The Directors believe the key competencies of its R&D is its innovation and market-orientation.

During the year under review, the Company had conducted research and development of a new Chinese medicine, Fu Fang Ban Lan Gen Troche (複方板蘭根含片). The progress is going quite smoothly. Currently, pre-clinical trial has been completed, R&D of the product has moved into quality standard reviewing period. The Company is waiting approval to apply for clinical trials.

PROSPECTS

Suppose Lu Lu Tong Injection (路路通注射液) is a cash cow of the Company, then I would say Yong Chong Cao Jun Powder and Yong Chong Cao Jun Power Capsules(蛹蟲草菌粉及蛹蟲草菌粉膠囊) is a problem child, and we expect it to become a star in near future. At this transitional period, we need all of our shareholders' understanding and support, we will do our best to improve returns to shareholders.

The further enforcement of a series of policies such as Good Manufacturing Practice ("GMP"), classified management of medicine and the further opening of market after China's entry into the World Trade Organisation have intensified the adjustment of industry structure and market competition of the pharmaceutical industry. As non-GMP certified manufactures will be forced to close down by the end of 2005, manufacturers who are able to uphold stringent production standards, such as our Company, will be in a good position to benefit from the more mature and regulated market.





Chairman's Statement

Medical sector developed prosperously in relatively weak global economies in the past few years. In the PRC, the rising in living standards has boosted demand for high quality medical and health products. To capture such opportunities, the Company will continue to leverage on its advanced technology and research powers to enhance its competitiveness and strengthen its revenue base by diversifying into other promising healthcare-related areas and geographic locations. To improve its profitability, the Company will further strengthen its quality management, refinement its operational procedures and adjustment on its product mix.

Our dedicated employees, portfolio of high quality products and advanced R&D technologies in house form the backbone of the Company's core competencies, which will strongly support growth to our business.

On behalf of the Board, I would like to thank our employees and the management for their effort and dedicated commitment, and to all shareholders for their support. The Company will put our whole effort and resource to improve profitability and bring long-term value to our shareholders.

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC
29 March 2004



Management Discussion and Analysis

BUSINESS REVIEW

Although the United State government had declared that the Iraq war was over on 1 May 2003, it was followed by the outbreak of Severe Acute Respiratory Syndromes ("SARS") which has some negative effect on social and economic impact on the PRC.

On the other hand, as most of the medicine manufacturers have to pass the GMP certification before the end of 2005, those small manufacturers with remote chance of getting the certification, therefore, reduced the selling prices of their products significantly in order to sell all the remaining stock before the due date, thus triggered fierce competition within the industry.

Facing with such unfavorable market conditions, the Company has adjusted its overall marketing strategies, such as adopting a more competitive pricing strategy, strengthening sales network, and moving into over-the-counter ("OTC") market.

To enlarge the product portfolio, the Company has officially introduced the New Medicine under State Category I, Yong Chong Cao Jun Powder and Yong Chong Cao Jun Power Capsules. As the introduction is still in a commencement stage, it was irrevocable that the turnover of the Company is still declining.

For the year ended 31 December 2003, turnover and net profit attributable to shareholders amounted to approximately RMB58,518,000 and RMB236,000 respectively, representing a decrease of approximately 27% and 98% respectively as compared with previous year. Gross profit of approximately RMB25,966,000 with a margin of approximately 44% while the previous year's gross profit was approximately RMB44,825,000 with a margin of 56%. The major reason contributing to the decrease in turnover and gross profit margin was mainly due to the intensive competition within the industry that resulted in cutting of selling price.

General, administration and operating expenses on sales for the year increased to approximately 30% from approximately 26% of previous year, representing an increase of approximately 4%. Such increase was mainly due to the increase in depreciation by approximately RMB3,243,000 from approximately RMB3,465,000 to RMB6,708,000.

Distribution and selling expenses has increased from RMB7,278,000 to RMB8,132,000 due to the strengthening of the Company's sales team to introduce Yong Chong Cao Jun Powder and Yong Chong Cao Jun Power Capsules and move into the OTC market.

Finance costs have decreased by 3% from approximately RMB1,435,000 to approximately RMB1,386,000 due to the reduction of bank interest expenses.





Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2003, the Company had total assets of approximately RMB206,775,000 which were financed by current liabilities of approximately RMB59,674,000 and shareholders' equity of approximately RMB147,101,000.

The Company generally services its debts primary through cash generated from its operations. As at 31 December 2003, the Company had cash and bank deposits of approximately RMB2,866,000 and short-term borrowings of RMB35,020,000 including an 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 41% (2002: 46%). The liquidity ratio, represented by a ratio between current assets over current liabilities, was 1:1.20 (2002: 1:1.18). Taken into consideration of its current financial resources, the Directors believe that the Company shall have adequate funds for its continuous operations and development.

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 and bank deposits, inventories, accounts receivable, prepayments and other current assets. Financial liabilities of the Company include accruals and other payables. To reduce exposure to credit risk, the Company has established strong credit control on customers. Files of individual customers have been set up, customers' credit limit should be reassessed and sometimes security of capital should also be guaranteed. The Company also closely monitors the outstanding balance owed by the customers, follows up each debtor overdue for more than 120 days and enforces collection of the outstanding balances through the Company's 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.

EMPLOYEE INFORMATION

Salaries of the Company's employees were determined by reference to the performance, qualification and experience of the relevant employees. A discretionary incentive bonus based on individual performance during the year was being distributed to reward their contributions to the Company. Other employee benefits include retirement benefits, medical insurance and housing fund. The management is of the opinion that employees are the most treasured assets of the Company. Accordingly, the Company has actively created a corporate environment to nurture them to their full potentials. In 2003, to improve the general qualification of the Company's management team, the Company provided intensified training for full time middle management. Furthermore, the Company also established its own "Talent Base", and attained a greater breakthrough than the past in the selection, cultivation, verification and treatment of its talents. The Company has initially established a modern corporate talent management system that is characterised by the dynamic management of its talent base, whereby, its talents can be deployed here and there while remuneration can be adjusted upward or downward.



Review of Business Objectives

Business objectives as stated in the Prospectus dated 28 February 2002 ("Prospectus")

Up to 31 December 2003

Establishment of a new GMP compliant plant

Trial production; Application for and obtaining of the GMP certificate

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 entry into the Hong Kong market due to unfavourable market conditions in local Chinese medical industry

2. Expansion of sales team to 225

The number of salesmen has reached 225

Research and development of new products

1. Xie Sha Tong Infusion Fluid (血塞通輸液): Application for and obtaining of trial production approval from the SDA; commencement of trial production

SDA has agreed to waive phase no. 3&4 of clinical trials, the Company only need to conduct phases no 1&2 of clinical trials. The Company expect to obtain approval for clinical trial very soon

2. Fu Fang Ge Gen Powder Injection (複方葛根粉針): Completion of clinical trials; preparation of application for approval from SDA

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): Completion of clinical trials; preparation of application for approval from the SDA

Stabilisation testing can't 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

Completion of construction, installation of equipment; commencement of operation

Construction and installation of equipment completed. Operation commenced

Establishment of a website

Optimising 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 THE NET PROCEEDS

	Up to 31 December 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	24.0	33.0
Expansion of sales team and network	2.0	2.0
Research and development of new products	6.0	1.2
Expansion of research and development capacity	2.0	2.0
Establishment of a website	2.0	0.2
Use of the net proceeds from the Placing	36.0	38.4

Up to 31 December 2003, the Company had utilised about HK\$38.4 million of the net proceeds from the Placing. The over-utilisation in establishment of new GMP compliant plant was mainly due to purchase of additional GMP compliant plant equipment. The under-utilisation in establishment of a website was 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.



Profiles of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Xu Zhe, aged 34, 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 53, 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 56, 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 39, 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 40, 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 34, 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 64, 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 41, 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 48, 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 34, 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 33, is the secretary of the Board of Directors 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 35, 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. During the period from July 1996 to December 1999, Mr. Lam had undertaken professional education in Hong Kong Polytechnic University. 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 ("we") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company"), in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company (the "Articles of Association") during the year ended 31 December 2003, have exercised conscientiously its authority, safeguarded the interests of the Company and its shareholders ("Shareholders"), following the principle of honesty and trustworthiness and worked cautiously and diligently.

During the year, we carefully reviewed the use of the proceeds raised in compliance with the plan of use of proceeds disclosed in the prospectus of the Company dated 28 February 2002 and provided reasonable suggestions and advice on the operations and development plans to the Directors and have strictly and effectively monitored whether the policies and decisions made had conformed with the state laws and regulations and the Articles of Association and have safeguarded the interests of the shareholders.

After investigation, we consider that the audited financial statements of the Company, truly and sufficiently reflect the operating results and asset positions of the Company. We also reviewed the Report of the Board and the profit distribution proposal, we consider that the report and proposal meet the requirements of the relevant regulations and Articles of Association. We have attended the meeting of the Board. We consider that the members of the Board and other officers have strictly complied with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Company. Up to now, none of the Directors and the officers have abused their powers, caused damage to the interests of the Company and infringed upon the interests of the company and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

We are satisfied with the various tasks achieved as well as the cost-effectiveness gained and are confident about the prospects of future development of the Company.

By Order of the Supervisory Committee

Zhang Ya Bin

Chairman

Jilin, the PRC
29 March 2004



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 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, the PRC on 20 May 2004 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 2003;
2. To appoint auditors and to authorise the board of directors of the Company to fix their remuneration;
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.
4. To review and re-approval of the continuing connected transactions of the Company in year 2003 to FE Group (if any). The Stock Exchange had granted a waiver of annual sales Cap of RMB12,000,000 (approximately HK\$11,200,000) to FE Group from strict compliance with the announcement and shareholders' approval requirements of the GEM listing Rules on the condition of its annual cap is not greater than the higher of HK\$10,000,000 or three per cent of the net assets of the Company; and
5. To transact any other business, if any.

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC
29 March 2004





Notice of Annual General Meeting

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 2004 to 20 May 2004 (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 2004, 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 2004.



Report of the Directors

The Directors are pleased to present their report together with the audited financial statements of Northeast Tiger Pharmaceutical Co., Ltd. (the “Company”) for the year ended 31 December 2003.

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 H 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 sale of Chinese medicine products in the PRC as well as conducting pharmaceutical research and development. There is no significant change in its activities during the year.

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	89%
– five largest suppliers combined	95%

Sales

– the largest customer	11%
– five largest customers combined	20%

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 income statement 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 in Note 22 to the financial statements.

FIXED ASSETS

Details of the movements of fixed assets of the Company are set out in Note 14 to the financial statements.

FOREIGN EXCHANGE RISK

Since all of the income and most of expenses of the Company are denominated in Renminbi, as at 31 December 2003 the Directors consider the impact on foreign exchange exposure of the Company is minimal.

CONTINGENT LIABILITIES

Up to the date of this report, the Company did not have any material contingent liabilities.

SIGNIFICANT INVESTMENT

During the year, the Company has no significant investment which need 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.

SHARE CAPITAL

Details of movement of share capital of the Company are set out in Note 21 to the financial statements.



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*)

Du Li Hua (*Deputy-Chairman*)

Liu Xiao Hong

Leng Zhan Ren

Independent Non-executive Directors

Liu Jin

Niu Shu Min

In accordance with the Articles of Association of the Company, all Directors will retire every three years and, being eligible, offer themselves for re-election at the forthcoming AGM.

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 Supervisors of the Company ("Supervisors") has a service contract with the Company which is not terminable within one year without payment of compensation, other than statutory compensation.

RETIREMENTS SCHEME, PERSONNEL AND PAYROLL

Particulars of the retirement scheme of the Company are set out in Note 12(a) to the accompanying financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Company as at 31 December 2003 are set out in Note 17 to the accompanying financial statements.

CONNECTED PARTY TRANSACTIONS

The related party transactions disclosed in Note 25 to the accompanying financial statements constitute the connected transactions under Chapter 20 of the GEM Listing Rules.



Report of the Directors

The non-executive Directors had reviewed the connected transactions of the year ended 31 December 2003 and confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of business of the Company;
- (ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable than those available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing the transactions; and
- (iv) on terms that are fair and reasonable and in interests of the shareholders of the Company as a whole.

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

Up to the reporting date, the interests and short positions of the Directors and Supervisors 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 5.58 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 personally interested	Number of Domestic Shares
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



Report of the Directors

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 5.58 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 31 December 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 31 December 2003, the persons or companies (not being a Director or Supervisor) 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 the Company 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 31 December 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.





Report of the Directors

DIRECTORS' AND SUPERVISORS'S INTEREST IN CONTRACTS

No contracts of significance in relation to the Company's business to which it was a party and in which any Director or Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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 31 December 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.

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 year ended 31 December 2003.

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.

CLOSURE OF H SHARE REGISTER

The H shares register of the Company will be closed from 17 April 2004 to 20 May 2004 (both days inclusive), during which no transfer of H shares will be effected.



Report of the Directors

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 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 audited results for the year ended 31 December 2003 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.

AUDITORS

The financial statements have been audited by HLB Hodgson Impey Cheng (appointed by the Board to fill the casual vacancy arising from the resignation of PricewaterhouseCoopers in October 2003) who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC
29 March 2004



Auditors' Report



國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

6/F., Wheelock House
20 Pedder Street
Central
Hong Kong

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

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

We have audited the financial statements 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2003 and of the profit and cash flows of the Company for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

Hong Kong, 29 March 2004



Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Turnover	4	58,518	80,499
Cost of sales		(32,552)	(35,674)
Gross profit		25,966	44,825
Other revenues	4	2,997	1,843
Distribution and selling expenses		(8,132)	(7,278)
General, administrative and operating expenses		(17,750)	(20,943)
Profit from operations	5	3,081	18,447
Finance costs	6	(1,386)	(1,435)
Profit from ordinary activities before tax		1,695	17,012
Income tax expense	7	(1,459)	(4,159)
Net Profit attributable to shareholders	22	236	12,853
Dividends	9	–	–
Earnings per share			
Basic, in cents	8	RMB0.03	RMB1.80
Diluted	8	N/A	N/A

All of the Company's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.



Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Total equity as at 1 January	21, 22	146,865	94,285
Issue of shares through the Placing	21, 22	–	57,087
Share issue expenses	22	–	(17,360)
Net profit attributable to shareholders	22	236	12,853
Total equity as at 31 December	21, 22	147,101	146,865

The accompanying notes form an integral part of these financial statements.



Balance Sheet

AS AT 31 DECEMBER 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Non-current assets			
Intangible assets	13	11,802	13,410
Fixed assets	14	123,229	121,451
		135,031	134,861
Current assets			
Inventories	15	9,816	12,121
Accounts receivable	16	48,760	49,493
Advances to staff		4,738	4,054
Prepayments and other current assets		1,331	2,209
Amounts due from related parties	25	4,233	5,658
Cash and bank deposits		2,866	5,575
		71,744	79,110
Total assets		206,775	213,971
Less: Current liabilities			
Short-term borrowings	17	35,020	35,020
Accounts payable	18	4,682	4,742
Advance from customers		4,966	8,021
Payable for intangible assets	13	–	1,770
Accruals and other payables	20	12,418	14,288
Amounts due to related parties	25	–	2,136
Income tax payable	19	2,588	1,129
		59,674	67,106
Net current assets		12,070	12,004
Net assets		147,101	146,865
<i>Representing:</i>			
Share capital	21	74,665	74,665
Reserves	22	72,436	72,200
Shareholders' equity		147,101	146,865

Approved by the Board of Directors on 29 March 2004 and signed on behalf of the Board by:

Liu Xiao Hong
Director

Leng Zhan Ren
Director

The accompanying notes form an integral part of these financial statements.



Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Net cash from operating activities	23	10,405	18,108
Cash flows from investing activities			
Payment for acquisition of fixed assets		(8,486)	(84,329)
Decrease in prepayment for fixed assets		–	11,394
(Decrease)/Increase in payable for fixed assets		(2,128)	1,670
Payment for intangible assets		(1,815)	(3,188)
Decrease in amounts due from related parties		1,425	27,254
Interest received		26	24
Net cash used in investing activities		(10,978)	(47,175)
Cash flows from financing activities			
Increase in short-term borrowings		–	2,000
Increase in long-term borrowings		–	2,000
Issue of shares through the Placing		–	57,087
Share issue expenses		–	(12,418)
(Decrease)/Increase in amounts due to related parties		(2,136)	735
Decrease in payable to the shareholders of Jilin Northeast Tiger Drugs Company Limited		–	(15,315)
Dividends paid		–	(12,180)
Net cash (used in)/ from financing activities		(2,136)	21,909
Net decrease in cash and cash equivalents		(2,709)	(7,158)
Cash and cash equivalents as at 1 January		5,575	12,733
Cash and cash equivalents as at 31 December		2,866	5,575
Analysis of balances of cash and cash equivalents			
Cash and bank deposits		2,866	5,575

All of the Company's cash and bank deposits are denominated in Renminbi which is not freely convertible to other currencies.

The accompanying notes form an integral part of these financial statements.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

1. CORPORATE INFORMATION

Northeast Tiger Pharmaceutical Co., Ltd. (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. Its principal activities were the development and sale of medicines. On 11 February 2000, the Company acquired all the business, assets and liabilities of Jilin Northeast Tiger Drugs Company Limited ("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 30 June 2000, the Company was converted into a joint stock company with limited liability in the PRC.

On 28 February 2002, the Company issued 207,000,000 shares of RMB0.10 each by way of placing (the "Placing") at HK\$0.26 per share, resulting in net proceeds of approximately RMB39.7 million. Since 28 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").

The directors of the Company (the "Directors") consider the ultimate holding company as at 31 December 2003 to be Jilin Far East Pharmaceutical Holdings Company Limited ("FE Holdings"), a company incorporated in the PRC.

2. PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies followed by the Company in the preparation of the financial statements are set out below:

a. Basis of preparation

The financial statements have been prepared in accordance with all Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules").

The financial statements 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.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

a. Basis of preparation (continued)

In the current year, the Company has adopted for the first time the revised SSAP 12 "Income Taxes" which is effective for accounting periods commencing on or after 1 January 2003. The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation were assured beyond reasonable doubt. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions. The adoption of SSAP 12 (revised) has had no material effect on the results of the Company for the current or prior financial years, accordingly, no prior year adjustment has been required.

b. 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.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

b. Intangible assets (continued)

ii. *Technical know-how*

Expenditures on acquisition of technical know-how and computer software are recognised as intangible assets if it is probable that future economic benefits that are attributable to the assets will flow to the Company. Such acquisition expenditures are stated at cost 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.

c. Fixed assets and depreciation

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 31 December 2001. In the intervening years, 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 (which is a component of the Company's capital reserve); any decrease is first offset against an increase in earlier valuation in respect of the same property and is thereafter charged to the income statement.

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 income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserve.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

c. Fixed assets and depreciation (continued)

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.

d. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement 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. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction, while value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. A reversal of an impairment loss is recognised as income immediately.

e. 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.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

f. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average cost 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. During the current year, the basis of calculation of cost of inventories was changed from the first-in first-out basis to the weighted average cost basis. The Directors consider that this change in accounting estimate does not have material financial effects in the current and prior financial years and such change will result in a more appropriate presentation in the financial statements for the current and future periods.

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.

g. Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Company's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Company's operating cycle.

h. Foreign currencies

Transactions in foreign currencies during the year are translated into Renminbi at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Renminbi at rates of exchange ruling at the balance sheet date. All gains and losses on translation of foreign currencies are dealt with in the income statement.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

i. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

j. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

k. Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only 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 an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow of economic resources occurs so that outflow is probable, a provision is recognised.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

l. Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

- i. Revenue from sales of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.
- ii. Interest income from bank deposits is recognised on a time-apportioned basis that takes into account the effective yield on the assets.
- iii. Subsidy income is recognised upon granting of subsidy by the relevant authorities.
- iv. Sundry income is recognised when received.

m. Income tax

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.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as a temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

n. 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 income statement in the year in which they are incurred.

o. Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are charged to the income statement on a straight-line basis over the relevant lease terms.

p. Retirement scheme

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

q. 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. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. SEGMENT INFORMATION

No business segment information (primary segment information) has been disclosed for the years presented as the Company is operating in a single business segment which is the development, manufacture and sale of medicine products in the PRC. Substantially all of the Company's revenues are generated in the PRC and all of the Company's assets are located in the PRC and therefore no geographical segment information has been disclosed for the years presented.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in Renminbi)

4. TURNOVER AND REVENUES

Revenues recognised during the year are as follows:

	2003 RMB'000	2002 RMB'000
Turnover:		
Sales of medicines in the PRC	58,518	80,499
Other revenues:		
Government subsidies (Note 22)	2,970	1,819
Interest income from bank deposits	26	24
Sundry income	1	–
	2,997	1,843
Total revenues	61,515	82,342

Turnover represents the net amounts received and receivable for goods sold by the Company to outside customers. All of the Company's sales made in the PRC 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").

Pursuant to the agreements between the government authorities and the Company, the Company was entitled to receive subsidies for technology innovation. Furthermore, according to the prevailing rules and regulations in the PRC, the Company should appropriate net profit of the same amount as the government subsidies to capital reserve when such subsidies are granted, further details of which are set out in Note 22 to the financial statements.



Notes to the Financial Statements

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5. PROFIT FROM OPERATIONS

	2003 RMB'000	2002 RMB'000
Profit from operations is stated after charging:		
Cost of inventories sold	32,552	35,674
Staff costs excluding directors' emoluments		
– Staff salaries and wages	4,561	3,721
– Provision for staff and workers' bonus and welfare fund	770	521
– Contributions to defined contribution retirement scheme	1,043	882
Write-off of obsolete inventories	305	126
Provision for slow moving and obsolete inventories	102	312
Provision for doubtful receivables	26	7,399
Amortisation of intangible assets	1,653	1,613
Depreciation of fixed assets	6,708	3,465
Operating lease charges in respect of rented premises	95	–
Research and development costs	1,202	915
Auditors' remuneration	445	600

6. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on bank loans wholly repayable on demand	1,374	1,413
Interest on other borrowings	1	2
Bank charges	11	20
	1,386	1,435

7. INCOME TAX EXPENSE

The income tax expense represents:

	2003 RMB'000	2002 RMB'000
PRC enterprise income tax ("EIT")		
– Current tax provision for EIT	1,025	2,547
– Deferred tax provision for EIT arising from temporary difference of sales recognition	434	1,612
	1,459	4,159



Notes to the Financial Statements

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7. INCOME TAX EXPENSE (CONTINUED)

The Company was established in Jilin High-Technology Development Zone, the PRC. The applicable enterprise income tax rate was 15% for each of the years ended 31 December 2002 and 2003.

The following is a reconciliation of expected income tax calculated at the applicable income tax rate of 15% on the profit from ordinary activities before tax with income tax expense:

	2003 RMB'000	2002 RMB'000
Profit from ordinary activities before tax	1,695	17,012
Expected income tax thereon at applicable income tax rate	254	2,551
EIT arising from temporary difference of sales recognition	434	1,612
Items not allowable/(taxable) for income tax purposes	771	(4)
Income tax expense for the year	1,459	4,159

8. EARNINGS PER SHARE

- (a) The calculation of basic earnings per share for the year ended 31 December 2003 is based on the Company's net profit attributable to shareholders of approximately RMB236,000 (2002: RMB12,853,000) and the weighted average number of 746,654,240 (2002: 713,193,966) shares in issue during the year.
- (b) No diluted earnings per share was presented as there were no dilutive potential ordinary shares in issue for each of the years ended 31 December 2002 and 2003.

9. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2003 (2002: Nil).



Notes to the Financial Statements

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10. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments disclosed pursuant to the requirements of the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Number of Directors	
	2003	2002
Executive Directors	5	5
Independent non-executive Directors	2	2
	7	7
	2003 RMB'000	2002 RMB'000
<i>Independent non-executive Directors:</i>		
– Fees	–	–
– Basic salaries, housing benefits, other allowances and benefits in kind	–	–
– Retirement scheme contributions	–	–
	–	–
<i>Executive Directors:</i>		
– Fees	–	–
– Basic salaries, housing benefits, other allowances and benefits in kind	130	124
– Retirement scheme contributions	31	31
	161	155
	161	155

The five executive Directors received individual emoluments of approximately RMB45,000 (2002: RMB42,000), RMB35,000 (2002: RMB31,000), RMB36,000 (2002: RMB40,000), RMB45,000 (2002: RMB42,000) and Nil (2002: Nil) for the year ended 31 December 2003. The two independent non-executive Directors did not receive any emoluments for the year ended 31 December 2003 (2002: Nil). The emoluments of each of the Directors were within the band of nil to RMB1,060,000 (equivalent to HK\$1,000,000).

There were no arrangements under which the Directors have waived or agreed to waive any emoluments. No emoluments were paid to the Directors as an inducement to join or upon joining the Company or as compensation for loss of office.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
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11. FIVE HIGHEST PAID INDIVIDUALS

Details of emoluments of the five highest paid individuals of the Company during the year ended 31 December 2003 (including Directors and employees) are as follows:

	2003	2002
Number of Directors	–	4
Number of employees	5	1
	5	5

	2003 RMB'000	2002 RMB'000
Basic salaries, housing benefits, other allowances and benefits in kind	474	357
Retirement scheme contributions	62	42
	536	399

The emoluments of each of the five highest paid individuals, including Directors, were within the band of nil to RMB1,060,000 (equivalent to HK\$1,000,000).

No emoluments were paid by the Company to the respective five highest paid individuals, including Directors, as an inducement to join or upon joining the Company or as compensation for loss of office.

12. EMPLOYEE BENEFITS

(a) Retirement scheme

The Company participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. 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 24% (2002: 25%) based on the eligible employees' salaries.



Notes to the Financial Statements

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12. EMPLOYEE BENEFITS (CONTINUED)

(a) Retirement scheme (continued)

The Company has arranged for its Hong Kong employees to join a mandatory provident fund scheme (the "MPF Scheme") in accordance with the Hong Kong Mandatory Provident Fund Schemes Ordinance, which is a defined contribution scheme managed by an independent trustee. Both the Company (the employer) and its employees make monthly contributions to the MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Schemes Ordinance. The contributions of employer and employees are subject to a cap of monthly earnings of HK\$20,000 and thereafter contributions are voluntary. The assets of the fund are held separately from those of the Company and are managed by independent professional fund managers.

(b) Housing fund

The Company has opened housing fund accounts for all its employees in January 2001. The housing fund scheme comprised of two parts, the Company and individual employees are required to contribute to the housing fund. The amount payable by each employee will be deducted from the employee's monthly salary by the Company. The ratio of housing fund to be deposited by individual employee and the Company is 5% of the average monthly salary of such employee for the previous year. Withdrawals from the fund are subject to qualifications and procedures specified under local regulations.

13. INTANGIBLE ASSETS

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
At cost:			
As at 1 January 2003	16,000	223	16,223
Additions	45	–	45
As at 31 December 2003	16,045	223	16,268
Accumulated amortisation:			
As at 1 January 2003	2,800	13	2,813
Charge for the year	1,608	45	1,653
As at 31 December 2003	4,408	58	4,466
Net book value:			
As at 31 December 2003	11,637	165	11,802
As at 31 December 2002	13,200	210	13,410

The outstanding payable as at 31 December 2002 of approximately RMB1,770,000 in relation to acquisition of technical know-how had been fully settled during the year.



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14. FIXED ASSETS

	Land use rights RMB'000	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Total RMB'000
At cost/valuation:						
As at 1 January 2003	18,956	82,807	17,741	2,429	6,073	128,006
Additions	264	5,617	897	28	1,680	8,486
As at 31 December 2003	19,220	88,424	18,638	2,457	7,753	136,492
Representing:						
At cost	11,846	68,591	18,638	2,457	7,753	109,285
At valuation	7,374	19,833	–	–	–	27,207
As at 31 December 2003	19,220	88,424	18,638	2,457	7,753	136,492
Accumulated depreciation:						
As at 1 January 2003	935	2,669	1,945	458	548	6,555
Charge for the year	403	2,812	1,845	306	1,342	6,708
As at 31 December 2003	1,338	5,481	3,790	764	1,890	13,263
Net book value:						
As at 31 December 2003	17,882	82,943	14,848	1,693	5,863	123,229
As at 31 December 2002	18,021	80,138	15,796	1,971	5,525	121,451

The Company's land use rights and buildings were appraised on 31 December 2001 by an independent professional valuer, Sallmanns (Far East) Limited, who have among their staff members of the Hong Kong Institute of Surveyors. 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 at 31 December 2001 was credited to the property revaluation reserve (which is a component of the Company's capital reserve, further details of which are set out in Note 22 to the financial statements).



Notes to the Financial Statements

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14. FIXED ASSETS (CONTINUED)

In the opinion of the Directors, the carrying values of the revalued land use rights and buildings as at 31 December 2002 and 2003 are not materially different from that arrived by Sallmanns (Far East) Limited as at 31 December 2001. The carrying amount of the revalued land use rights and buildings as at 31 December 2003 would have been approximately RMB17,714,000 (2002: RMB18,268,000) had they been stated at cost less accumulated depreciation.

As at 31 December 2003, land use rights and buildings with net book value of approximately RMB27,931,000 (2002: RMB22,268,000) were pledged as security for the Company's short-term bank loans.

15. INVENTORIES

	2003 RMB'000	2002 RMB'000
Raw materials	5,957	6,013
Work-in-progress	2,251	2,553
Finished goods	2,022	3,867
Total inventories	10,230	12,433
Less: Provision for slow moving and obsolete inventories	(414)	(312)
Total inventories, net of provision	9,816	12,121

As at 31 December 2003, the carrying amount of finished goods that are carried at net realisable value amounted to approximately RMB72,000 (2002: RMB3,580,000).



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
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16. ACCOUNTS RECEIVABLE

As at 31 December 2003, the ageing analysis of accounts receivable was as follows:

	2003 RMB'000	2002 RMB'000
0 – 30 days	25,788	32,068
31 – 60 days	2,890	5,415
61 – 90 days	2,301	4,077
91 – 180 days	6,761	5,954
181 – 270 days	6,213	4,111
271 – 365 days	5,375	2,092
Over 365 days	14,182	10,500
Total accounts receivable	63,510	64,217
Less: Provision for doubtful receivables	(14,750)	(14,724)
Total accounts receivable, net of provision	48,760	49,493

General credit terms granted to customers range from 90 to 120 days. Provision is made against accounts receivable to the extent they are considered to be doubtful.

17. SHORT-TERM BORROWINGS

	2003 RMB'000	2002 RMB'000
Bank loans (Note a)	25,000	25,000
Other borrowings (Note b)	10,020	10,020
	35,020	35,020



Notes to the Financial Statements

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17. SHORT-TERM BORROWINGS (CONTINUED)

Notes:

- (a) The balance comprises short-term bank loans of RMB25,000,000 which bore interest at 5.31% per annum and were secured by land use rights and buildings of the Company, further details of which are set out in Note 14 to the financial statements.
- (b) The balance comprises an interest-free unsecured loan of RMB10,000,000 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 15 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. The loan has no fixed term of repayment, and repayment is subject to further negotiation between the Company and the Lender. As at 31 December 2003 and up to the date of approval of these financial statements, the Lender has not demanded for repayment of the loan and the Directors consider it is appropriate to continue to classify the loan as current liabilities.

Another loan amounted to RMB20,000 (2002: RMB20,000) from an independent third party was unsecured, interest bearing at 5.31% per annum and was repayable on demand.

18. ACCOUNTS PAYABLE

As at 31 December 2003, the ageing analysis of accounts payable was as follows:

	2003 RMB'000	2002 RMB'000
0 to 1 month	2,758	3,591
1 to 6 months	340	486
6 to 12 months	873	4
1 to 2 years	–	137
Over 2 years	711	524
	4,682	4,742



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19. INCOME TAX PAYABLE

As at 31 December 2003, the income tax payable comprises:

	2003 RMB'000	2002 RMB'000
Current tax:		
EIT payable/(prepaid)	54	(971)
Deferred tax:		
EIT arising from temporary difference of sales recognition	2,534	2,100
	2,588	1,129

20. ACCRUALS AND OTHER PAYABLES

	2003 RMB'000	2002 RMB'000
Provision for staff welfare	385	385
Payable for PRC statutory contribution	2,319	1,691
Payable for fixed assets	1,060	3,188
Payable to suppliers	821	1,211
Other taxes payable	7,536	6,852
Other accruals	297	961
	12,418	14,288



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21. SHARE CAPITAL

	Number of shares	Amount RMB'000
Ordinary shares of RMB0.10 each		
<i>Authorised:</i>		
As at 1 January 2002 (Domestic shares)	539,654,240	53,965
Increase in authorised ordinary share capital (H shares)	207,000,000	20,700
As at 31 December 2002 and 2003	746,654,240	74,665
<i>Issued and fully paid:</i>		
As at 1 January 2002 (Domestic shares)	539,654,240	53,965
Issue of shares through the Placing (H shares)	207,000,000	20,700
As at 31 December 2002 and 2003	746,654,240	74,665

On 28 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 issued was credited to share premium (which is a component of the Company's capital reserve, further details of which are set out in Note 22 to the financial statements).

Domestic shares and H shares are ordinary shares in the registered share capital of the Company. However, H shares may only be subscribed for by or traded in HK\$ between legal or natural persons of Hong Kong, Macau, Taiwan and any country other than the PRC. Domestic shares, on the other hand, may only be subscribed for or purchased in Renminbi. Any dividends in respect of H shares are to be paid by the Company in HK\$ whereas any dividends in respect of domestic shares are to be paid by the Company in Renminbi.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003
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22. RESERVES

	Capital reserve			Statutory public welfare fund	Statutory revenue reserve	Retained earnings	Total reserves
	Share premium	Property revaluation reserve	Others				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2002	–	6,886	4,538	2,275	4,549	22,072	40,320
Net profit for the year	–	–	–	–	–	12,853	12,853
Premium on issue of shares through the Placing	36,387	–	–	–	–	–	36,387
Share issue expenses	(17,360)	–	–	–	–	–	(17,360)
Transfer to capital reserve in respect of government subsidies (Note 4)	–	–	1,819	–	–	(1,819)	–
Profit appropriated to reserve funds	–	–	–	1,399	700	(2,099)	–
As at 31 December 2002 and 1 January 2003	19,027	6,886	6,357	3,674	5,249	31,007	72,200
Net profit for the year	–	–	–	–	–	236	236
Transfer to capital reserve in respect of government subsidies (Note 4)	–	–	2,970	–	–	(2,970)	–
Profit appropriated to reserve funds	–	–	–	254	508	(762)	–
As at 31 December 2003	19,027	6,886	9,327	3,928	5,757	27,511	72,436



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22. RESERVES (CONTINUED)

Notes:

- (a) According to the relevant regulations in the PRC and Articles of Association of the Company, when distributing net profit of each year, the Company shall set aside 10% of its profit after tax 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.
- (b) 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.
- (c) 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 at 31 December 2003, no statutory revenue reserve was transferred into share capital subsequent to the Company's reorganisation to a joint stock limited company.
- (d) The discretionary revenue reserve as approved by the shareholders may be converted into share capital.
- (e) The capital reserve of the Company includes certain non-distributable reserves created in accordance with the relevant accounting and financial regulations in the PRC. Certain components of the capital reserve could be capitalised into share capital upon approval.
- (f) Profit appropriation is subject to the approval of the Board of Directors and the shareholders' meeting. In accordance with the prevailing rules and regulations in the PRC, the reserve available for distribution is the lower of the amount determined under accounting principles generally accepted in the PRC and the amount determined under accounting principles generally accepted in Hong Kong.



Notes to the Financial Statements

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23. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX TO NET CASH FROM OPERATING ACTIVITIES

	2003 RMB'000	2002 RMB'000
Profit from ordinary activities before tax	1,695	17,012
Adjustments for:		
Amortisation of intangible assets	1,653	1,613
Depreciation of fixed assets	6,708	3,465
Provision for doubtful receivables	26	7,399
Provision for slow moving and obsolete inventories	102	312
Interest expenses	1,375	1,415
Interest income	(26)	(24)
Operating profit before changes in working capital	11,533	31,192
Changes in working capital:		
Inventories	2,203	8,453
Accounts receivable	707	(15,110)
Advances to staff	(684)	(136)
Prepayments and other current assets	878	(645)
Accounts payable	(60)	(3,195)
Advance from customers	(3,055)	2,707
Accruals and other payables	258	(195)
Net cash generated from operations	11,780	23,071
Interest paid	(1,375)	(1,415)
Income tax paid	–	(3,548)
Net cash from operating activities	10,405	18,108

24. OPERATING LEASE COMMITMENTS

As at 31 December 2003, the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	2003 RMB'000	2002 RMB'000
Within one year	12	–



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25. RELATED PARTY TRANSACTIONS

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

(a) Major balances with related parties

Balances from trading activities:

Related party	Nature of transaction	2003 RMB'000	2002 RMB'000
FE Holdings	Accounts receivable	-	511
Company which is subject to common significant influence	Accounts receivable	11	361
	Accounts payable	-	126

Amounts due from and to related parties:

Related party	Highest balance outstanding during the year RMB'000	2003 RMB'000	2002 RMB'000
FE Holdings	4,233	4,233	4,233
Jilin City Far East Water Supply Company Limited, a company directly owned by FE Holdings	61	-	61
Xu Zhe, a Director	1,353	-	1,353
Xu Dao Ping, sibling of a Director, Xu Dao Tian	11	-	11
Amounts due from related parties		4,233	5,658



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25. RELATED PARTY TRANSACTIONS (CONTINUED)

Related party	2003 RMB'000	2002 RMB'000
Hailaer City Yidaitianjiao Pharmaceutical Company Limited, a company directly owned by FE Holdings	-	2,052
Jilin You Lian Wei Shi Industrial Company Limited ("You Lian"), a company owned by a Director, Xu Dao Tian	-	84
Amounts due to related parties	-	2,136

The amounts due are unsecured, interest-free and repayable on demand.

- (b) The following is a summary of significant related party transactions which, in the opinion of the Directors, were carried out in the ordinary course of the Company's business:

Related party	Nature of transaction	2003 RMB'000	2002 RMB'000
You Lian	Purchases	231	633
FE Holdings	Sales	-	151
	Goods returned	-	4,454
	Acquisition of property (note)	-	7,400

Note:

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



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26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year presentation.

27. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2004.



Financial Information

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

	Year ended 31 December			
	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Results				
Net profit attributable to shareholders	236	12,853	22,030	21,934

	As at 31 December			
	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Assets and liabilities				
Total assets	206,775	213,971	185,573	122,092
Total liabilities	(59,674)	(67,106)	(91,288)	(56,723)
Shareholders' equity	147,101	146,865	94,285	65,369

