



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)



First Quarterly Report 2004

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

This report, for which the directors ("Directors") of Northeast Tiger Pharmaceutical Co., Ltd. ("Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

(unaudited)

- Turnover of the Company for the three months ended 31 March, 2004 was approximately RMB10,302,000, representing a decrease of approximately 34% as compared with the same period in the previous year.
- Profit/(loss) attributable to shareholders of the Company ("Shareholders") for the three months ended 31 March, 2004 was approximately RMB(505,000), representing a decrease of approximately 118% as compared with same period in the previous year.
- Earnings/(loss) per share ("Shares") of the Company for the three months ended 31 March, 2004 was approximately RMB(0.1) cents.
- The Directors do not recommend the payment of any dividend for the three months ended 31 March, 2004.



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RESULTS (UNAUDITED)

The board of Directors ("Board") is pleased to announce the unaudited results of the Company for the three months ended 31 March, 2004, together with the comparative figures for the corresponding periods of the previous financial year, as follows:

		Three months ended	
		31 March,	
		2004	2003
	<i>Notes</i>	RMB'000	RMB'000
Turnover	b	10,302	15,554
Cost of sales		(6,015)	(7,329)
Gross profit		4,287	8,225
Other revenue	c	-	-
Distribution and selling expenses		(2,162)	(1,447)
General, administrative and other operating expenses		(2,290)	(3,133)
Operating profit/(loss)	d	(165)	3,645
Finance costs		(340)	(344)
Profit before taxation		(505)	3,301
Taxation	e	-	(495)
Profit/(loss) attributable to shareholders		(505)	2,806
Dividends		N/A	N/A
		RMB	RMB
Earning/(loss) per Share – basic	f	(0.1) cents	0.4 cents



Notes:

a. Accounting policy and basis of presentation

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

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

The principal accounting policies used in the preparation of the unaudited financial statement of the Company for the three months ended 31 March, 2004 are consistent with those used in the audited accounts issued for the year ended 31 December, 2003.

b. Turnover

Sales of goods are recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

c. Other revenue

	Three months ended	
	31 March,	
	2004	2003
	RMB'000	RMB'000
- Government subsidies	-	-
- Others	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

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



d. Operating profit/(loss)

Operating profit/(loss) is stated after charging the following items:

	Three months ended	
	31 March,	
	2004	2003
	RMB'000	RMB'000
- Interest expenses	336	354
- Depreciation of fixed assets	1,284	1,055
- Amortization of intangible assets	482	493

e. Taxation

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

The Company provides for taxation on the basis of its income for financial reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purpose.

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.

f. Earnings/(loss) per Share

The calculation of basic earnings/(loss) per Share for a relevant period is based on unaudited profit/(loss) attributable to Shareholders for the period, divided by the respective weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares in issue for the three months ended 31 March, 2004 is 746,654,240 (2003: 746,654,240).

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

g. Segment reporting

No business segment information (primary segment information) has been disclosed 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.



MOVEMENT IN RESERVES

The movements of reserves are as follows:

	Capital Reserve			Statutory public welfare fund	Statutory revenue reserve	Retained earnings	Total reserves
	Share revaluation premium	Property Reserve	Others				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2003	19,027	6,886	6,357	3,674	5,249	31,007	72,200
Net profit for the period	-	-	-	-	-	2,806	2,806
Government Subsidies	-	-	-	-	-	-	-
Profit appropriated to reserve funds	-	-	-	-	-	-	-
As at 31 March 2003	19,027	6,886	6,357	3,674	5,249	33,813	75,006
As at 1 January 2004	19,027	6,886	9,327	3,928	5,757	27,511	72,436
Net profit for the period	-	-	-	-	-	(505)	(505)
Government Subsidies	-	-	-	-	-	-	-
Profit appropriated to reserve funds	-	-	-	-	-	-	-
As at 31 March 2004	19,027	6,886	9,327	3,928	5,757	27,006	71,931

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the three months ended 31 March, 2004 (2003: nil).

BUSINESS REVIEW AND PROSPECTS

Business review

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

During the period under review, business was dampened and turnover of the Company slipped 34% to RMB10,302,000 from RMB15,554,000 as compared with the corresponding period in 2003. The decrease was mainly due to adverse market conditions and keen competition as well as change of product mix.

During the period under review, The Company suffered net loss attributable to Shareholders for the first time since its setting-up, which amounted to approximately RMB505,000, a drop of 118% as compared with net profit of approximately RMB 2,806,000 for the corresponding period in 2003. The main reasons attribute to the decrease in the profit attributable to Shareholders included: (i) distribution and selling expenses increased 49% due to continuing promotion of new products- Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsules; (ii) depreciation cost increased 22%.

During the period under review, as the management of Company adopted effective measures to cut cost, as a result, the General, administrative and other operating expenses dramatically reduced 27%.

Marketing and products

Facing with tough market competition, the Company, on one hand, in the Hospital market strengthened the communication with major hospital and the promotion of products, sped up the transmission of market information that aimed to maintain its sales and put more effort on the over-the-counter ("OTC") market to anticipate demand and acquire market.

On the other hand, promotion of Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsules, a new Chinese medicine under State Category I, has become top priority of the Company's objective this year. Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsules have been proved to be a nutritional supplement to strengthen the kidney and lungs of human body, especially, they have been regarded as an important medical breakthrough in curing chronic bronchitis. Currently, two similar products are already being produced and sold in the market of the country. However, they are of asexual implantation, with less medical functions and result of treatment is not so satisfactory.

Moreover, as natural aweto (冬蟲夏草) is now prohibited to gather, and Yong Chong Cao Jun Powder has been approved to become a substitute for it as a official raw material of Chinese medicine by the State Drugs Administration of PRC. This should be good news to the Company in its current unsatisfactory business environment.

The Director believes that once the introduction of Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsules became fruitful, the income base of the Company will be broadened and the turnover and operating results will be improved.

During the period under review, the Company continued to strictly comply with the Good Manufacturing Practice standards, strengthened the quality control procedures, and established close relationship with the suppliers and on-going operation streamlining with a view to achieve cost saving.



Human resource management

The Company aim to conduct a series of comprehensive and systematically training courses for the staff this year. An evaluation session was held to assess the performance of the sales staff and their product knowledge, and then tailor-made programs were provided. The scope of training covered a number of aspects, ranging from professional skills for officers to operational techniques for production posts, from professional theory for engineering personnel to specific expertise for quality inspection personnel, from the know-how for supportive staff to modern sales concept for salesmen, from total quality control (TQC) to GMP, from occupational morals to "Northeast Tiger Spirit". Through the course of learning, the Company aim to urge staff to demonstrate continued self-improvement and build up a highly professional sales team to achieve better results.

Research and development

In order to further enhance the competitiveness of its product in increasingly competitive market, the Company will concentrate the resources on improvement research and development capacity. Up to now, the R&D of new projects is progressing quite well.

Modern technology is changing quickly, in order to keep abreast with technology advancement, the Company will make full use of the geographical advantage of Jilin province as a traditional base of Chinese medicine and cooperated with scientific research institutions widely and actively to explore new products and improve production technology.

Prospects

As the development of modernized Chinese medicine industry becomes one of prime directives of the PRC government, it is believed that the future of the Company is quite optimistic. The management of the Company will open their minds, venture into innovation and strive to capture business opportunities. In the meantime, the Company will continue the promotion of Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsules to ensure it become a future star of the Company, although in the short-term, its effect may not be apparent.

In order to further achieve overall cost savings, the Company will continue to strengthen the quality control procedures and continuously optimize and rationalize its production processes, while production technology are updated accordingly, and logistic processes and production planning are reviewed periodically, so as to enhance the competitiveness of the our products and providing a solid platform for future growth of the Company.

The Company will closely observe the changes in the market, review the marketing strategy from time to time, and introduce more value-added products by leverage on its advanced technology and research prowess. Through training of its current sales team and integration of human resources



by recruiting young and energetic professionals with medical background and deployed them to the forefront of the market, the Company aim to make the sales team more professional, younger and more aggressive, thus, we can work in unity to improve the Company's operating results.

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

As at 31 March, 2004, the interests and short positions of the Directors and supervisors of the Company ("Supervisor") in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange, were as follows:

- *Long positions in Shares*

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

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



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

As at 31 March, 2004, 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 March, 2004, the persons or companies (not being a Director or Supervisor of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follow:

- *Long positions in Shares*

Name	Number of Domestic Shares held	Approximate percentage of shareholding (%)
Jilin Far East Pharmaceutical Holdings Company Limited	194,194,580	26.01

Save as disclosed above, as at 31 March, 2004, the Directors were not aware of any other person who had an interest or short position in the Shares of the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

None of the Directors and Supervisors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in any business which competes or may compete with the business of the Company.



SPONSOR'S INTERESTS

First Shanghai Capital Limited ("First Shanghai"), its directors, employees or associates, did not have any interest in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company as at 31 March, 2004.

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

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee according to "A Guide For The Formation of An Audit Committee" complied by the Hong Kong Society of Accountants. In compliance with Rules 5.29 and 5.30 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Company. The audit committee comprises Ms. Liu Jin and Ms. Niu Shu Min, both of whom are independent non-executive Directors.

The audit committee had reviewed the Company's unaudited results for the three months ended 31 March, 2004 and was of the opinion that the preparation of unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

PRACTICES AND PROCEDURES OF THE BOARD

The Directors consider that the Company has complied with the requirement of board practices and procedures under Rules 5.34 to 5.45 of the GEM Listing Rules throughout the three months' reporting period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the H shares of the Company commenced trading on GEM on 28 February, 2002, the Company has not purchased, sold or redeemed any of the Company's listed securities.

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

By Order of the Board
Xu Zhe
Chairman

Jilin, the PRC
14 May, 2004