



東北虎藥業股份有限公司

NORTHEAST TIGER PHARMACEUTICAL CO., LTD.

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



Third Quarterly Report 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 nine months ended 30 September, 2004 was approximately RMB37,805,000, representing a decrease of approximately 14% as compared with the same period in the previous year.
- Profit attributable/(loss) to shareholders of the Company ("Shareholders") for the nine months ended 30 September, 2004 was approximately RMB38,000, representing a decrease of approximately 99% as compared with same period in the previous year.
- Earnings/(loss) per share ("Shares") of the Company for the nine months ended 30 September, 2004 was approximately RMB0 cents.
- The Directors do not recommend the payment of any dividend for the nine months ended 30 September, 2004.



RESULTS (UNAUDITED)

The board of Directors ("Board") is pleased to announce the unaudited results of the Company for the nine months ended 30 September, 2004, together with the comparative figures for the corresponding periods of the previous financial year, as follows:

	Notes	Nine months ended 30 September, 2004		Three months ended 30 September, 2004	
		2003		2003	
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	b	37,805	43,779	12,571	14,199
Cost of sales		(22,530)	(20,232)	(7,078)	(7,054)
Gross profit		15,275	23,547	5,493	7,145
Other revenue	c	(19)	(3)	(19)	(4)
Distribution and selling expenses		(6,000)	(4,828)	(1,477)	(1,573)
General, administrative and other operating expenses		(8,172)	(9,484)	(2,990)	(3,135)
Operating profit	d	1,084	9,232	1,007	2,433
Finance costs		(1,039)	(1,052)	(362)	(373)
Profit before taxation		45	8,180	645	2,060
Taxation	e	(7)	(1,227)	(7)	(309)
Profit attributable to shareholders		38	6,953	638	1,751
Dividends		N/A	N/A	N/A	N/A
		RMB	RMB	RMB	RMB
Earnings per Share					
- basic	f	0 cents	0.9 cents	0.1 cents	0.2 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 Institute of Certified Public Accountants ("HKICPA"), 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 HKICPA. The Directors considered the adoption of these SSAPs had no material effect on the results of the current or prior accounting period. Accordingly, no prior period adjustment has been required.

The principal accounting policies used in the preparation of the unaudited financial statement of the Company for the nine months ended 30 September, 2004 are consistent with those used in the audited accounts issued for the year ended 31 December, 2003.

b. Turnover

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

c. Other revenue

	Nine months ended		Three months ended	
	30 September,		30 September,	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Government subsidies	—	—	—	—
Others	(19)	(3)	(19)	(4)
	(19)	(3)	(19)	(4)

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



d. Operating profit

Operating profit is stated after charging the following items:

	Nine months ended		Three months ended	
	30 September,		30 September,	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
- Interest expenses	1,040	1,062	367	368
- Depreciation of fixed assets	3,895	3,593	1,309	1,279
- Amortization of intangible assets	1,448	1,411	484	481

e. Taxation

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

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

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

f. Earnings per Share

The calculation of basic earnings per Share for a relevant period is based on unaudited profit attributable to Shareholders for the period, divided by the respective weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares in issue for the nine months and three months ended 30 September, 2004 are 746,654,240 and 746,654,240 respectively (2003: 746,654,240 and 746,654,240 respectively).

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

g. Segment reporting

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



BUSINESS REVIEW AND PROSPECTS

Business review

During the third quarter, the Company recorded a profit attributable to Shareholders of approximately RMB638,000. The slightly turnaround from loss is attributable to contribution from sales of Yong Chong Cao Jun Powder and Yong Chong Cao Jun Power Capsules (蛹虫草菌粉及蛹虫草菌粉胶囊), a new Chinese medicine under State Category I and the product and its production method was award Golden Price by Hong Kong International New Technology Investment and Development Centre in 2001.

For the nine months ended 30 September, 2004, turnover and profit attributable to Shareholders amounted to approximately RMB37,805,000 and RMB38,000 respectively, representing a decrease of approximately 14% and 99% respectively as compared with 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 24% due to continuing promotion of new products – Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsules; ii) the prices of raw material and energy increased substantially. In contrast, the prices of bulk pharmaceuticals sold by the Company experienced fluctuations, albeit, at low level. Both of these unfavorable factors resulted in increase of costs and decrease of overall gross profit margin from 54% to 40%.

There are three major reasons for the decrease in turnover. Firstly, the price competition in current pharmaceutical market becomes increasingly fierce; Secondly, certain similar products manufactured overseas and domestically have been launched in the Chinese market, and some hospitals and doctors are interested in experimenting new alternative products, leading to increasingly fierce competition, thus have negative impact on the revenue of the Company.; Thirdly, the sales of some of the company's new drugs declined due to the change in price caps enacted by State Food and Drug Administration of PRC (the "SFDA").

To further improve operating result, the Company will continue to promote Yong Chong Cao Jun Powder and Yong Chong Cao Jun Power Capsules (蛹虫草菌粉及蛹虫草菌粉胶囊) and other high-end products. In the mean time, The Company continues to strictly enforce cost control measures to reduce overall cost. As a result, during the period under review, the General, administrative and other operating expenses has reduced 14%.

Marketing and products

To pursue a more comprehensive sales network, the Company adjusted the composition of marketing team by piloting the recruitment of local sales persons in certain regions, a move that effectively enhanced overall talent resources and their adaptability to market, forming a new model of the Company's marketing team recruitment. The Directors believes it will facilitate the Company to communicate and understand local market better and react easily to market change and introduce new products.

The ever-changing market demand required the Company to have the production capacity of many production lines and in different dosage forms in order to satisfy the need of consumers of different social strata and types. Based on scientific analysis of the structure of its own product mix, the Company has adjusted its product mix through vertical integration and devoted more effort on marketing of the products in the middle and later part of its production chain to increase its sales and minimize the impact of fluctuation of raw material prices as well as increase its overall profit margin.

During the period under review, the Company has successfully obtain GMP standard certification of large volume injection from the SFDA, and application for production approval of 10ml Ji An Tai Gan injection has been submitted to SFDA.

The Company will periodically review its marketing strategy to keep abreast with market development so as to accomplish its annual object.

Research and development

Research and development on new medicine has been continued smoothly. The progress of this primary research and development activities were closely monitored by the Company's professional and proceeded with laid down schedules. The Company will continue the selection of new product development projects in order to widen production range.

Secondary research and new technology application research is another priority of the Company. It is market-orientated and in greater depth. Through change in dosage form, packaging and intake dosage, market demand and need of production and operation can be satisfied.



Prospects

The generally sluggish domestic pharmaceutical market environment in the PRC is expected to continue. In light of the pharmaceutical market being increasingly competitive, the Company will continue to push promotion of Yong Chong Cao Jun Powder and Yong Chong Cao Jun Power Capsules (蛹虫草菌粉及蛹虫草菌粉胶囊) and enhance brand awareness.

The Company will continue to strengthen its corporate management to improve profits, adopt the system of public bidding for purchase of raw material to lower cost of purchase, implement budgetary control to control expenditure and encourage innovation to improve productivity.

The rise in living and education standards has boosted the ever-growing demand for high quality medical and health products, creating many opportunities for the Company. The Company will continue to diversify and transform its products towards high end products. With a solid foundation, well-known brand names, a dedicated management team, we are ready to move forward as usual and create best long-term value for our shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September, 2004, the Company had total assets of approximately RMB206,507,000 which were financed by current liabilities of approximately RMB59,368,000 and shareholders equity of approximately RMB147,139,000. The Company generally services its debts primary through cash generated from its operations. The financial position of the Company remains healthy. As at 30 September, 2004, the Company had cash and bank balances of approximately RMB1,487,000, and short-term borrowings of RMB34,520,000, including unsecured interest-free loan of RMB10,000,000 from China Hi-Tech Investment Company. Taken into consideration of its current financial resources, the Directors believe that the Company shall have adequate fund for its continual operation and development.

MOVEMENT IN RESERVES

The movements of reserves are as follows:

	Capital Reserve			Statutory public welfare fund	Statutory revenue reserve	Retained earnings	Total reserves
	Share premium	Property revaluation Reserve	Other				
	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	-	-	-	-	-	6,953	6,953
Government Subsidies	-	-	-	-	-	-	-
Profit appropriated to reserve funds	-	-	-	-	-	-	-
As at 30 September 2003	19,027	6,886	6,357	3,647	5,249	37,960	79,153
As at 1 January 2004	19,027	6,886	9,327	3,928	5,757	27,511	72,436
Net profit for the period	-	-	-	-	-	38	38
Government Subsidies	-	-	-	-	-	-	-
Profit appropriated to reserve funds	-	-	-	-	-	-	-
As at 30 September 2004	19,027	6,886	9,327	3,928	5,757	27,549	72,474

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the period ended 30 September, 2004 (2003: nil).



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

As at 30 September, 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 5.48 to 5.67 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	Approximate percentage of Shareholdings (%)
Xu Zhe	183,482,440	24.57
Xu Dao Tian	150,644,480	20.17
Liu Xiao Hong	1,888,790	0.24
Zhang Ya Bin	1,618,960	0.21
Leng Zhan Ren	1,349,140	0.17
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	338,983,810	45.36

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 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange.



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

As at 30 September, 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 30 September, 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 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 30 September, 2004, the Directors and Supervisors were not aware of any other person who had an interest or short position in the Shares of the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.



COMPETING INTERESTS

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

SPONSOR'S INTERESTS

First Shanghai Capital Limited ("First Shanghai"), its directors, employees or associates, did not have any interest in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company as at 30 September, 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. 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, Ms. Niu Shu Min and Mr. Zhao Zhen Xing, all of whom are independent non-executive Directors.

The audit committee had reviewed the Company's unaudited results for the nine months ended 30 September, 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 nine months' reporting period.

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

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

On behalf of the Board, I would like to extend my thanks to our shareholders for their full trust, support and understanding, and to all our staff for their contribution, diligence, creativity and loyalty.

By Order of the Board

Xu Zhe
Chairman

Jilin, the PRC

12 November, 2004

As at the date of this report, the Board comprises the following Directors:

Executive Directors:

Xu Zhe
Du Li Hua
Xu Dao Tian
Liu Xiao Hong
Leng Zhan Ren

Independent Non-Executive Directors:

Liu Jin
Niu Shu Min
Zhao Zhen Xing

