



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 2004



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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

Zhao Zhen Xing

SUPERVISORS

Zhang Ya Bin

Chen Lin Bo

Yin Hong

COMPANY SECRETARY

Lam Kai Yeung, *ACCA, AHKICPA*

QUALIFIED ACCOUNTANT

Lam Kai Yeung, *ACCA, AHKICPA*

AUDIT COMMITTEE

Liu Jin

Niu Shu Min

Zhao Zhen Xing

COMPLIANCE OFFICER

Du Li Hua

AUTHORIZED REPRESENTATIVES

Liu Xiao Hong

Leng Zhan Ren

GEM STOCK CODE

8197

AUTHORIZED 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

Computershare Hong Kong Investor Services
Limited

46th 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

Room 2201-03, 22/F, World Wide
House, 19 Des Voeux Road Central,
Central, Hong Kong





Chairman's Statement

On behalf of Board of Directors (the "Board") of Northeast Tiger Pharmaceutical Co., Ltd, I hereby present to our shareholders the annual report of for the year ended 31 December 2004.

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.

Year 2004 is a tough year for certain segment of domestic pharmaceutical industry and the Company. According to information center of State-owned Assets Supervision and Administration Commission's report, the overall pharmaceutical industry has faced with adverse market condition like low product price and high raw material price, leading to cost increase and contract of turnover and profit during 2004. During the period under review, turnover of the Company was approximately RMB46,142,000, representing a decrease of 21% as compared with last year. However, the Director believed that the fundamental strength of Company remained satisfactory.

- **Prestigious Certificate of "State Major New Product" (國家重點新產品)**

In July 2004, the Company has been issued the prestigious Certificate of "State Major New Product" (國家重點新產品) for Yong Chong Cao Jun Power Capsules (蛹蟲草菌粉膠囊) in recognition of the well-acclaimed achievements of the management and our R&D team in the development of this medicine that represents an important contribution to the medical development in the PRC. This certificate is issued jointly by four states bureau, namely the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), the Ministry of Commerce of the PRC (中華人民共和國商務部), General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) and State Environmental Protection Administration of China (國家環境保護總局).

- **New Good Manufacturing Practice ("GMP") production line**

During the period under review, large volume injection and Chinese medicine raw material (Yong Chong Cao Jun Powder) of the Company has successfully passed Good Manufacturing Practice ("GMP") standard autoptic certification, the former one has obtained GMP certificate on 24 June 2004 and the later one is expected to obtained GMP certificate very soon. After that, the Company should have seven types of GMP production line which including large volume injection, small volume injection, granules, tablets, capsules, liquid pills and raw material (Yong Chong Cao Jun Powder).

Chairman's Statement

- **Good Supply Practice ("GSP")**

On 1 April 2004, the Company has successfully passed the Good Supply Practice ("GSP") certificate. The GSP are guidelines and regulations from time to time issued pursuant to the Law of the PRC on the Administration of Pharmaceuticals as part of quality assurance to ensure that pharmaceutical products subject to those guidelines and regulations are consistently distributed in compliance with prescribed quality control standards for safe and effective use by the public. Requirements are set in terms of hardware and software standards such as specified storage conditions for warehouse, information management policy, personnel distribution chain. In accordance with the SFDA's announcement, both GSP and GMP certificates are mandatory for the operations of manufacturing and distribution of pharmaceutical products in the PRC on 31 December 2004 and 30 June 2004 respectively. The Company, together with its GMP certificates, is now recognised as a full-fledged authorised manufacturer and distributor in the PRC pharmaceutical arena.

Marketing and products

During the period under review, Yong Chong Cao Jun Power Capsules (蛹蟲草菌粉膠囊) has won the Prestigious Certificate of "State Major New Product" (國家重點新產品) and its market recognition is increasing. Chinese medicine raw material—Yong Chong Cao Jun Powder of the Company has successfully passed Good Manufacturing Practice ("GMP") standard autoptic certification, and in view of its primary functions include nutrition supplement to kidney and lungs, relieve cough and reduce phlegm and can be used for prolonged pneumonary weakness and renal failure. Moreover, the pre-clinical trial on Yong Chong Cao Jun Power Capsules' application to enhance renal strength has completed and moved into phase of rechecking of quality and application for clinical trial will be initiated soon. The Company plan to establish a product chain to satisfy the variant need of customers of different levels. Firstly Chinese medicine raw material—Yong Chong Cao Jun Powder is the starting point of the product chain, it can be used as raw material for products of the later part of the production chain; secondly it can be sold as the end product in the market. It is well knew that the higher in the production chain, the less exposure it is to the impact of price competition and high raw material cost, therefore, the Directors believed operating risk can be reduced and the competitive advantage of the Company will be enhanced.

During the period under review, the Company had put full efforts to extend its sales network, identify products with market potential from the abundant variety of existing products and expand the sales of the Company's products to ensure the achievement of different targets of the Company. For example, to satisfy market demand, the Company initiated to differentiate our existing product—Ji An Tai Gan Injection by adding large volume type of injection which containing 10ml, and the Company had obtained production approval form SFDA.





Chairman's Statement

In light of keen competition within the pharmaceutical industry, the Company had imported senior marketing talents in the fourth quarter of the year and restructured its marketing resource and product mix with an aim to provide new driving force for the Company's long term development, stimulate its sales volume in the long run and achieve a turnaround from current unsatisfactory situation.

The Company will continue to maintain and consolidate its relationship with existing hospital clients, and actively promotes applications for our products. The promotion of Yong Chong Cao Jun Power Capsules (蛹蟲草菌粉膠囊) is continuing, the public awareness and acceptance is improving satisfactory, and the Company hopes it will become an other major source of income just after Lu Lu Tong Injection (路路道注射液).

Research and development ("R&D")

The Company will continue to devote resources to R&D to broaden its range of products and improve its competitive edge.

The R&D department of the Company actively created conditions to strive and speed up the process of launching new products into the market. New projects with high curative effect, high technological additional value, and high efficiency will be selected for R&D and launched later in order to improve operating results. Up to now, both pre-clinical trial of Yong Chong Cao Jun Power Capsules' application to enhance renal strength and Fu Fang Ban Lan Gen Troche had been finished and moved into phase of rechecking of quality and application for clinical trial will be initiated soon.

Prospects

The competition within certain segment of domestic pharmaceutical market is real keen during 2004, turnover of the Company has been affected quite seriously. Through optimize of its resource allocation, restructuring and broadening its sales network, importation of high quality marketing management and continuous R&D of new products, the Company believed it has built a solid foundation for its future's growth.

Chairman's Statement

State Category I product— Yong Chong Cao Jun Power Capsules (蛹蟲草菌粉膠囊) has won the Prestigious Certificate of "State Major New Product" (國家重點新產品), it indicated that after one year's launching and promotion, the product had won consumers initial recognition and possessed good market potential. Although its contribution to profit was not yet apparent, the management believes that it will contribute considerable cash flow and earnings to the Company in near future.

Look forward, the demand for modern Chinese medicine with international standard is still growing. Based on recent in-depth market observation and due planning, the Company pushes to implement the "Northeast Tiger Commanding" project. This project aims to put more effort to enhance brand awareness and effectiveness of "Northeast Tiger", by focusing on promotion of Yong Chong Cao Jun Power Capsules (蛹蟲草菌粉膠囊) as a break point, the Company hopes to achieve a chain reaction so as to improve sales of its other products simultaneously. The Directors expect the project will bring in stable revenue to the Company.

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC
18 March, 2005



Management Discussion and Analysis

Business Review

For the year ended 31 December 2004, turnover amounted to approximately RMB46,142,000 representing a decrease of approximately 21% as compared with the corresponding period in 2003. There are three major reasons for the decrease in turnover. Firstly, adverse market conditions and intensified price competition impaired the business performance which caused the absolute amount of sales to weigh down; Secondly, the policy on GMP certification is currently not strictly imposed by the state, enabling small-scale manufacturers to dump their products in the market, which triggered price competition seriously in the market; Thirdly, macro-economic adjustment policy implemented by central government of the PRC has certain indirect negative impact on sentiment of consumer.

For the year ended 31 December, 2004, net cash flow from operating activities is approximately RMB6,222,000 (2003: RMB10,405,000), however, the Company suffered loss for the first time, net loss attributable to shareholders amounted to approximately RMB18,522,000 (2003: net profit attributable to shareholders amounted to approximately RMB236,000). The main reasons attribute to the decrease in the profit attributable to shareholders included: i) provision of bad debts increased dramatically to approximately RMB9,967,000 from RMB26,000, resulted in general, administrative and operating expenses increasing 57%; ii) Intensified market competition resulted in low product price and hence decrease of turnover and profit; iii) overall gross profit margin decreased by 14% from approximately 44% to approximately 30% due to high raw material, energy and power price. However, up to now, the Company's operation is as normal as usual.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December, 2004, the Company had total assets of approximately RMB192,485,000 which were financed by current liabilities of approximately RMB63,906,000, shareholders' equity of approximately RMB128,579,000.

The Company generally services its debts through cash generated from its operations. As at 31 December, 2004, the Company had cash and bank balances of approximately RMB5,987,000, and short-term borrowings of approximately 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, but will exclude the possibility of raising working capitals once required by way of additional bank loans or equity financing in future.



Management Discussion and Analysis

As at 31 December, 2004, the liquidity ratio, represented by a ratio between current assets over current liabilities, was 1:1.02, the gearing ratio of the Company, defined as a ratio between total debts and shareholders' equity, was 49.7%, indicating that over half of the assets are financed by its shareholders' equity and that the Company has ample room for external borrowings.

TREASURY POLICIES

The Company adopts a conservative approach towards treasury policies. In selling its products, the Company may require new customers to make advance payment of approximately 45% of their purchases. The general credit terms in relation to the accounts receivable of the Company range from 90 to 120 days. In determining the length of the credit term extended to any specific customer, the Company will consider the reputation of the customer, the length of business relationship with the customer and its past payment record. The Company's management also puts endeavors on credit control on its customers by closely monitoring the outstanding balance owed by them. The actions taken by the Company include conducting monthly reviews on accounts receivable, following up each debtor overdue more than 120 days and enforcing the collection of outstanding balance of accounts receivable. The Company strives to reduce exposure to credit risk by performing ongoing credit evaluations of financial condition of its customers.

To manage liquidity risk, management closely monitors the liquidity position to ensure that the liquidity restructure of the Company can meet its funding requirements.

EMPLOYEE INFORMATION

Salaries of the Company's employees were determined by reference to the performance, qualification and experience of the relevant staff. Based on operating result, a discretionary incentive bonus based on individual performance maybe distributes to reward their contributions to the Company. 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. Payroll costs of the Company remained at a similar level as before during the year. Other employee benefits include retirement benefits, medical insurance and housing fund contributions, remained at appropriate levels. Various training and development courses were also offered to enable employees to upgrade their skills.

Review of Business Objectives

Business objectives as stated in the Prospectus published in 20 February 2002 ("Prospectus")

Actual business progress up to 31 December 2004

Establishment of a new GMP compliant plant

Commencement of commercial production

Commercial production commenced

Expansion of the sales team and network

1. Continued expansion of the 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 unfavorable market conditions in local Chinese medical industry

2. Expansion of sales team to 225

The number of salesperson has reached 225

Research and development of new products

1. Xie Sha Tong Infusion Fluid (血塞通輸液): Trial production

Phase I of clinical trial completed, now move into phase II of clinical trial.

2. Fu Fang Ge Gen Powder Injection (複方葛根粉針): Trial production

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): Trial production

Stabilization testing can not comply with the new medicine certificate standard. The Company has ceased this product's research and development

Expansion of research and development capacity

Completion of construction, installation of equipment; installation of equipment; commencement of operation

Operation commenced

Review of Business Objectives

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

Establishment of a website

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

Actual business progress up to 31 December 2004

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, so to avoid loss, further website construction has been ceased

COMPARISON OF USE OF THE NET PROCEEDS

	Up to 31 December 2004	
	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	28.0	33.0
Expansion of sales team and network	2.0	2.0
Research and development of new products	6.0	2.6
Expansion of research and development capacity	2.0	2.0
Establishment of a website	2.0	0.4
Use of the net proceeds	<u>40.0</u>	<u>40.0</u>

Up to 31 December, 2004, the Company had utilized about HK\$40.0 million of the net placing proceeds. The over-utilization in establishment of new GMP compliant plant was mainly due to the over-budget on purchase of GMP plant equipment. The under-utilization in establishment of a website is due to suspension of further website development. The residual fund due to abandonment of Fu Fang Ge Gen Powder Injection (複方葛根粉針) and Fu Fang Ge Gen Infusion Fluid (複方葛根輸液) project will be used for other projects' research and development in future.



Profile of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Xu Zhe, aged 35, 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 54, 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 57, 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



Profile 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 40, 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 41, 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 35, 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 65, 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.



Profile of Directors, Supervisors and Senior Management

Zhao Zhen Xing, aged 62, was appointed an independent non-executive director of the Company on 30 September 2004. He graduated from College of Jilin provincial Finance and banking. He became a registered Auditor of PRC in 1994, and in July 1997 he was recognized as a senior accountant of PRC. He was manager of internal audit department of Jilin Tansu Group, Jilin Tansu Company Limited during 1991 to 2001. He served as Supervisor of Jilin Tansu Group, Jilin Tansu Company Limited during 1997 to 2001.

SUPERVISORS

Zhang Ya Bin, aged 42, 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 49, 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 35, 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 34, is the secretary of the board of directors of the Company and the supervisor of the general manager's office. Ms. Gao graduated from Jilin College of Finance and Trade and is an assistant accountant.

Lam Kai Yeung, aged 36, 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 Institute of Certified Public Accountants and has over five years of working experience in finance and auditing.



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, 2004, 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 20 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
18 March 2005

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 2005 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 2004;
2. To appoint auditors and to authorize 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 2004 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;
5. To re-elect the retiring Directors and supervisors of the Company and to consider and approve the remuneration proposals for Directors and supervisors of the Company for the year ending 31 December 2005;
6. To consider and if the right fit, pass with or without modifications, the following resolution as a special resolution:

"THAT:

- (a) subject to paragraphs (c), (d) and (e) below, the exercise by the Board of Directors of the Company (the "Board") during the Relevant Period (as defined in paragraph (f) below) of all the powers of the Company separately or concurrently to allot, issue and deal with domestic shares of nominal value of RMB0.10 each in the share capital of the Company (the "Domestic Shares") and/or overseas – listed foreign shares of nominal value of RMB0.10 each in the share capital of the Company (the "H Shares") be and is hereby approved;
- (b) the approval in paragraph (a) above shall authorise the Board to make an offer or agreement or grant an option during the Relevant Period which would or might require Domestic Shares and/or H Shares to be allotted and issued either during or after the end of the Relevant Period;

Notice of Annual General Meeting

- (c) the aggregate nominal value of Domestic Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversion rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20 per cent of the aggregate nominal value of the Domestic Shares then in issue at the date of the passing of this resolution;
- (d) the aggregate nominal value of H Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversion rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20 per cent. of the aggregate nominal value of the H Shares then in issue at the date of the passing of this resolution;
- (e) the approval in paragraph (a) above shall be conditional upon the approval of the China Securities Regulatory Commission being obtained by the Company;
- (f) for the purpose of this special resolution: “Relevant Period” means the period from the passing of this special resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution;
 - (ii) the expiration of a period of 12 months following the passing of this special resolution; or
 - (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in general meeting.

Notice of Annual General Meeting

“Rights issue” means an offer of shares open for a period fixed by the Directors to holders of shares of the Company on the register of members of the Company on a fixed record date and, where appropriate, the holders of the other equity securities of the Company entitled to be offered therein, in proportion to their then holdings of such shares or other equity securities (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any regulatory body or any stock exchange); and

- (g) the Board be and is hereby authorised to make such amendments to the articles of association of the Company as it thinks fit so as to increase the registered share capital and to reflect the new capital structure of the Company as a result of the allotment and issue of shares of the Company pursuant to the approval granted under paragraph (a) above”; and
7. To transact any other business, if any.

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC
18 March 2005

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 19 April 2005 to 20 May 2005 (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 18 April 2005, 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 2005.



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 2004.

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.

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	74%
– five largest suppliers combined	80%

Sales

– the largest customer	31%
– five largest customers combined	47%

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 p.27.

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 23 to the financial statements.

FIXED ASSETS

Details of the movements of fixed assets of the Company are set out in Note 15 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 2004 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 did not have any significant investment which needed 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 22 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

Zhao Zhen Xing

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.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

None of the Directors and 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 13(a) to the accompanying financial statements.

CHARGES ON ASSETS

As at 31 December 2004, land use rights and buildings with net book value of approximately RMB27,085,000 (2003: RMB27,931,000) were pledged as security for the Company's short-term bank loans.

BANK BORROWINGS

Particulars of bank borrowings of the Company as at 31 December 2004 are set out in Note 18 to the accompanying financial statements.



Report of the Directors

CONNECTED PARTY TRANSACTIONS

The related party transactions disclosed in Note 26 to the accompanying financial statements constitute the connected transactions under Chapter 20 of the GEM Listing Rules.

The non-executive directors of the Company had reviewed the connected transactions of the year ended 31 December 2004 and confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of business of the Company;

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
- (ii) in accordance with the relevant agreements governing the transactions; and
- (iii) on terms that are fair and reasonable and in interests of the shareholders of the Company as a whole.
- (iv) the aggregate amount of each of these transactions has not exceeded the cap amount as agreed with the Stock Exchange in this regard.

Report of the Directors

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

As at 31 December, 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 5.46 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 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
	<hr/> 338,983,810 <hr/>

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 5.46 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.

Report of the Directors

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

As at 31 December 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 December, 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 31 December, 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.



Report of the Directors

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, 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 Rule 5.29 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 conducted a meeting and reviewed the Company's audited results for the year ended 31 December, 2004 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.

PRACTICES AND PROCEDURES OF THE BOARD

The Directors considered that during the period under review, the Company has complied with the requirement of Board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 December 2005.

STANDARD OF DEALINGS AND MODEL CODE OF PRACTICE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a model code of practice with standards not lower than those required for securities transactions by directors. The Company has confirmed after making due enquiries with the Directors in accordance with the code of practice, that all the Directors have complied with the standard of dealings and model code of practice in relation to securities transaction by directors.



Report of the Directors

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.

AUDITORS

The financial statements have been audited by HLB Hodgson Impey Cheng who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

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

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC
18 March, 2005

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 27 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 Institute of Certified Public 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 2004 and of the loss 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, 18 March 2005



Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Turnover	5	46,142	58,518
Cost of sales		(32,295)	(32,552)
Gross profit		13,847	25,966
Other revenues	5	2,015	2,997
Distribution and selling expenses		(5,037)	(8,132)
General, administrative and operating expenses		(27,870)	(17,750)
(Loss)/ profit from operations	6	(17,045)	3,081
Finance costs	7	(1,413)	(1,386)
(Loss)/ profit from ordinary activities before tax		(18,458)	1,695
Income tax expense	8	(64)	(1,459)
Net (loss)/ profit attributable to shareholders	23	(18,522)	236
Dividends	10	–	–
(Loss)/ earnings per share			
Basic	9	(2.48) cents	0.03 cents
Diluted	9	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 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Total equity as at 1 January	22, 23	147,101	146,865
Net (loss)/ profit attributable to shareholders	23	(18,522)	236
Total equity as at 31 December	22, 23	128,579	147,101

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

Balance Sheet

AS AT 31 DECEMBER 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Intangible assets	14	10,178	11,802
Fixed assets	15	119,801	123,229
		129,979	135,031
Current assets			
Inventories	16	7,172	9,816
Accounts receivable	17	40,220	48,760
Advances to staff		4,368	4,738
Prepayments and other current assets		597	1,331
Amount due from a related party	26	4,162	4,233
Cash and bank deposits		5,987	2,866
		62,506	71,744
Total assets		192,485	206,775
Less: Current liabilities			
Short-term borrowings	18	34,520	35,020
Accounts payable	19	6,892	4,682
Advance from customers		5,896	4,966
Accruals and other payables	20	13,946	12,418
Income tax payable	21	2,652	2,588
		63,906	59,674
Net current (liabilities)/assets		(1,400)	12,070
Net assets		128,579	147,101
<i>Representing:</i>			
Share capital	22	74,665	74,665
Reserves	23	53,914	72,436
Shareholders' equity		128,579	147,101

Approved by the Board of Directors on 18 March 2005 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 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Net cash from operating activities	24	6,222	10,405
Cash flows from investing activities			
Payment for acquisition of fixed assets		(3,634)	(8,486)
Increase/ (decrease) in payable for fixed assets		980	(2,128)
Payment for intangible assets		(33)	(1,815)
Decrease in amount due from a related party		71	1,425
Interest received		15	26
Net cash used in investing activities		(2,601)	(10,978)
Cash flows from financing activities			
Repayment of short-term borrowings		(25,000)	–
New short-term borrowings raised		24,500	–
Decrease in amounts due to related parties		–	(2,136)
Net cash used in financing activities		(500)	(2,136)
Net increase/ (decrease) in cash and cash equivalents		3,121	(2,709)
Cash and cash equivalents as at 1 January		2,866	5,575
Cash and cash equivalents as at 31 December		5,987	2,866
Analysis of balances of cash and cash equivalents			
Cash and bank deposits		5,987	2,866

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 2004
(Expressed in Renminbi)

1. CORPORATE INFORMATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") is a joint stock limited company incorporated in the People's Republic of China (the "PRC"). Its principal activities are the development, manufacture and sale of medicines in the PRC. There were no significant changes in the nature of its principal activities during the year.

The directors of the Company (the "Directors") consider the ultimate holding company as at 31 December 2004 to be Jilin Far East Pharmaceutical Holdings Company Limited ("FE Holdings"), a company incorporated in the PRC.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (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.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the "new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The new HKFRSs may result in changes in the future as to how the Company's financial performance and financial position are prepared and presented.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in Renminbi)

3. PRINCIPAL ACCOUNTING POLICIES

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

a. 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.

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 the intangible asset will be assessed and written down to its recoverable amount.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in Renminbi)

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

b. 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 by external professional valuers holding recognised professional qualifications. In the intervening years, the Directors review the carrying value of land and buildings and no adjustment is made where in the Directors' opinion there has been no 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.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in Renminbi)

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

c. 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.

d. 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.

e. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average 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.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in Renminbi)

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

e. Inventories (continued)

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.

f. 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.

g. 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.

h. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

i. 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in Renminbi)

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

j. **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. A contingent asset is not recognised but is 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.

k. **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. Subsidy income is recognised upon granting of subsidy by the relevant authorities.
- iii. Interest income from bank deposits is recognised on a time-apportioned basis that takes into account the effective yield on the assets.
- iv. Sundry income is recognised when received.

l. **Income tax**

The charge for taxation in the income statement for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.



Notes to the Financial Statements

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3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

l. Income tax (continued)

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 substantively 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.

m. 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.

n. 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.

o. Retirement scheme

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

p. 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.

Notes to the Financial Statements

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4. 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.

5. TURNOVER AND REVENUES

	2004 RMB'000	2003 RMB'000
Turnover:		
Sales of medicines in the PRC	46,142	58,518
Other revenues:		
Government subsidies (Note 23)	1,999	2,970
Interest income from bank deposits	15	26
Sundry income	1	1
	2,015	2,997
Total revenues	48,157	61,515

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 23 to the financial statements.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in Renminbi)

6. (LOSS)/ PROFIT FROM OPERATIONS

(Loss)/ profit from operations is stated after charging:

	2004 RMB'000	2003 RMB'000
Cost of inventories sold	32,295	32,552
Staff costs excluding directors' emoluments		
– Staff salaries and wages	3,451	4,561
– Provision for staff and workers' bonus and welfare fund	608	770
– Contributions to defined contribution retirement scheme	831	1,043
Write-off of obsolete inventories	349	305
Provision for slow moving and obsolete inventories, net	(63)	102
Provision for doubtful receivables	9,967	26
Provision for advances to staff	2,004	–
Amortisation of intangible assets	1,657	1,653
Depreciation of fixed assets	7,062	6,708
Operating lease charges in respect of rented premises	48	95
Research and development costs	907	1,202
Auditors' remuneration	424	445

7. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on bank loans wholly repayable on demand	1,402	1,374
Interest on other borrowings	1	1
Bank charges	10	11
	1,413	1,386

Notes to the Financial Statements

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8. INCOME TAX EXPENSE

The income tax expense represents:

	2004 RMB'000	2003 RMB'000
PRC enterprise income tax ("EIT")		
– Current tax provision for EIT	–	1,025
– Deferred tax provision for EIT arising from temporary difference of sales recognition	64	434
	64	1,459

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 2003 and 2004.

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

	2004 RMB'000	2003 RMB'000
(Loss)/ profit from ordinary activities before tax	(18,458)	1,695
Expected income tax thereon at applicable income tax rate	–	254
EIT arising from temporary difference of sales recognition	64	434
Items not allowable for income tax purposes	–	771
Income tax expense for the year	64	1,459

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004
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9. (LOSS)/ EARNINGS PER SHARE

- (a) The calculation of basic (loss)/ earnings per share is based on the Company's net loss attributable to shareholders of approximately RMB18,522,000 (2003: net profit attributable to shareholders of approximately RMB236,000) and the weighted average number of 746,654,240 shares (2003: 746,654,240 shares) in issue during the year.
- (b) No diluted (loss)/earnings per share is presented as there are no dilutive potential ordinary shares in issue for each of the years ended 31 December 2003 and 2004.

10. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2004 (2003: Nil).

11. 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	
	2004	2003
Executive Directors	5	5
Independent non-executive Directors	3	2
	8	7

Notes to the Financial Statements

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(Expressed in Renminbi)

11. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

	2004 RMB'000	2003 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	108	130
– Retirement scheme contributions	26	31
	134	161
	134	161

The five executive Directors received individual emoluments of approximately RMB48,000 (2003: RMB45,000), RMB49,000 (2003: RMB45,000), RMB37,000 (2003: RMB36,000), Nil (2003: RMB35,000) and Nil (2003: Nil) for the year ended 31 December 2004. The three independent non-executive Directors did not receive any emoluments for the year ended 31 December 2004 (2003: 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

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12. FIVE HIGHEST PAID INDIVIDUALS

Details of emoluments of the five highest paid individuals of the Company during the year ended 31 December 2004 (including Directors and employees) are as follows:

	2004	2003
Number of Director	1	–
Number of employees	4	5
	5	5

	2004 RMB'000	2003 RMB'000
Basic salaries, housing benefits, other allowances and benefits in kind	488	474
Retirement scheme contributions	58	62
	546	536

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.

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13. 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% (2003: 24%) based on the eligible employees' salaries.

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.



Notes to the Financial Statements

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14. INTANGIBLE ASSETS

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
At cost:			
As at 1 January 2004	16,045	223	16,268
Additions	33	–	33
As at 31 December 2004	16,078	223	16,301
Accumulated amortisation:			
As at 1 January 2004	4,408	58	4,466
Charge for the year	1,613	44	1,657
As at 31 December 2004	6,021	102	6,123
Net book value:			
As at 31 December 2004	10,057	121	10,178
As at 31 December 2003	11,637	165	11,802

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15. 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 2004	19,220	88,424	18,638	2,457	7,753	136,492
Additions	–	325	2,138	77	1,094	3,634
As at 31 December 2004	19,220	88,749	20,776	2,534	8,847	140,126
Representing:						
At cost	11,846	68,916	20,776	2,534	8,847	112,919
At valuation	7,374	19,833	–	–	–	27,207
As at 31 December 2004	19,220	88,749	20,776	2,534	8,847	140,126
Accumulated depreciation:						
As at 1 January 2004	1,338	5,481	3,790	764	1,890	13,263
Charge for the year	403	2,818	1,953	308	1,580	7,062
As at 31 December 2004	1,741	8,299	5,743	1,072	3,470	20,325
Net book value:						
As at 31 December 2004	17,479	80,450	15,033	1,462	5,377	119,801
As at 31 December 2003	17,882	82,943	14,848	1,693	5,863	123,229

Notes to the Financial Statements

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15. FIXED ASSETS (CONTINUED)

Included in the buildings as at 31 December 2004 is a property situated in Beijing, the PRC with net book value of approximately RMB16,220,000. As of the date of approval of these financial statements, the Company is still in the process of obtaining the building ownership certificate (房屋所有權証) of the relevant property. The Company's PRC legal advisors has confirmed that, inter alia, (i) the Company entered into a sale and purchase agreement with the property developer to purchase the property situated in Beijing and the sale and purchase agreement is not in breach of the relevant laws and regulations and is legally enforceable, and the aforesaid sale and purchase agreement empowers the Company to become the legal beneficial owner of the relevant property and possess the legal rights to transfer and sell the relevant property; (ii) according to the sale and purchase agreement and the investigation performed by the Company's PRC legal advisors, the Company is in the process of obtaining the building ownership certificate of the relevant property with the assistance of the property developer which in turn is liaising with the relevant government authorities; and (iii) according to the sale and purchase agreement, the Company's PRC legal advisors are in the opinion that there are no legal impediments under the current PRC laws and regulations for the Company to obtain the building ownership certificate with the assistance of the property developer. Accordingly, the Directors are satisfied that it is appropriate to recognise the relevant property in the financial statements of the Company as at 31 December 2004.

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 23 to the financial statements).

As at 31 December 2004, the Directors reviewed the carrying value of the land use rights and buildings with reference to the valuation performed by an independent professional valuer having qualifications recognised in the PRC. In the opinion of the Directors, the carrying values of the revalued land use rights and buildings as at 31 December 2004 are not materially different from that arrived by Sallmanns (Far East) Limited as at 31 December 2001 and no adjustment to the carrying value of land use rights and buildings was made accordingly. The carrying amount of the revalued land use rights and buildings as at 31 December 2004 would have been approximately RMB17,160,000 (2003: RMB17,714,000) had they been stated at cost less accumulated depreciation.

As at 31 December 2004, land use rights and buildings with net book value of approximately RMB27,085,000 (2003: RMB27,931,000) were pledged as security for the Company's short-term bank loans.

Notes to the Financial Statements

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16. INVENTORIES

	2004 RMB'000	2003 RMB'000
Raw materials	3,690	5,957
Work-in-progress	1,695	2,251
Finished goods	2,138	2,022
Total inventories	7,523	10,230
Less: Provision for slow moving and obsolete inventories	(351)	(414)
Total inventories, net of provision	7,172	9,816

As at 31 December 2004, the carrying amount of finished goods that are carried at net realisable value amounted to approximately RMB339,000 (2003: RMB72,000).

17. ACCOUNTS RECEIVABLE

As at 31 December 2004, the ageing analysis of accounts receivable was as follows:

	2004 RMB'000	2003 RMB'000
0 – 30 days	20,195	25,788
31 – 60 days	3,172	2,890
61 – 90 days	2,865	2,301
91 – 180 days	5,999	6,761
181 – 270 days	4,648	6,213
271 – 365 days	3,097	5,375
Over 365 days	24,961	14,182
Total accounts receivable	64,937	63,510
Less: Provision for doubtful receivables	(24,717)	(14,750)
Total accounts receivable, net of provision	40,220	48,760

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.



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18. SHORT-TERM BORROWINGS

	2004 RMB'000	2003 RMB'000
Bank loans (Note a)	24,500	25,000
Other borrowings (Note b)	10,020	10,020
	34,520	35,020

Notes:

- (a) The balance comprises short-term bank loans of RMB24,500,000, in aggregate which bore interest at 5.84% per annum and were secured by land use rights and buildings of the Company, further details of which are set out in Note 15 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 2004 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 (2003: RMB20,000) from an independent third party was unsecured, interest bearing at 5.31% per annum and was repayable on demand.

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19. ACCOUNTS PAYABLE

As at 31 December 2004, the ageing analysis of accounts payable was as follows:

	2004 RMB'000	2003 RMB'000
0 to 1 month	4,753	2,758
1 to 6 months	633	340
6 to 12 months	163	873
1 to 2 years	899	–
Over 2 years	444	711
	6,892	4,682

20. ACCRUALS AND OTHER PAYABLES

	2004 RMB'000	2003 RMB'000
Provision for staff welfare	615	385
Payable for PRC statutory contribution	2,195	2,319
Payable for fixed assets	2,040	1,060
Payable to suppliers	1,286	821
Other taxes payable	6,848	7,536
Other accruals	962	297
	13,946	12,418

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21. INCOME TAX PAYABLE

As at 31 December 2004, the income tax payable comprises:

	2004 RMB'000	2003 RMB'000
Current tax:		
EIT payable	54	54
Deferred tax:		
EIT arising from temporary difference of sales recognition	2,598	2,534
	2,652	2,588

22. SHARE CAPITAL

	2004 RMB'000	2003 RMB'000
<i>Authorised, issued and fully paid:</i>		
539,654,240 domestic shares of RMB0.1 each	53,965	53,965
207,000,000 H shares of RMB0.1 each	20,700	20,700
Total ordinary shares as at 31 December	74,665	74,665

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.

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23. 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 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 5)	-	-	2,970	-	-	(2,970)	-
Profit appropriated to reserve funds	-	-	-	254	508	(762)	-
As at 31 December 2003 and 1 January 2004	19,027	6,886	9,327	3,928	5,757	27,511	72,436
Net loss for the year	-	-	-	-	-	(18,522)	(18,522)
Transfer to capital reserve in respect of government subsidies (Note 5)	-	-	1,999	-	-	(1,999)	-
As at 31 December 2004	19,027	6,886	11,326	3,928	5,757	6,990	53,914

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 (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.



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23. RESERVES (CONTINUED)

Notes: (continued)

- (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 2004, 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.

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24. RECONCILIATION OF (LOSS)/ PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX TO NET CASH FROM OPERATING ACTIVITIES

	2004 RMB'000	2003 RMB'000
(Loss)/ profit from ordinary activities before tax	(18,458)	1,695
Adjustments for:		
Amortisation of intangible assets	1,657	1,653
Depreciation of fixed assets	7,062	6,708
Provision for doubtful receivables	9,967	26
Provision for advances to staff	2,004	–
Provision for slow moving and obsolete inventories, net	(63)	102
Interest expenses	1,403	1,375
Interest income	(15)	(26)
Operating profit before changes in working capital	3,557	11,533
Changes in working capital:		
Inventories	2,707	2,203
Accounts receivable	(1,427)	707
Advances to staff	(1,634)	(684)
Prepayments and other current assets	734	878
Accounts payable	2,210	(60)
Advance from customers	930	(3,055)
Accruals and other payables	548	258
Net cash generated from operations	7,625	11,780
Interest paid	(1,403)	(1,375)
Net cash from operating activities	6,222	10,405

25. OPERATING LEASE COMMITMENTS

As at 31 December 2004, the Company had no future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises (2003: RMB12,000).



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26. 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	2004 RMB'000	2003 RMB'000
Company which is subject to common significant influence	Accounts receivable	11	11

Amount due from a related party:

Related party	Highest balance outstanding during the year RMB'000	2004 RMB'000	2003 RMB'000
FE Holdings	4,233	4,162	4,233

The amount due is 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	2004 RMB'000	2003 RMB'000
You Lian	Purchases	222	231

27. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 18 March 2005.

Financial Information Summary

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

Results	Year ended 31 December				
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Net (loss)/profit attributable to shareholders	(18,522)	236	12,853	22,030	21,934

Assets and liabilities	As at 31 December				
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Total assets	192,485	206,775	213,971	185,573	122,092
Total liabilities	(63,906)	(59,674)	(67,106)	(91,288)	(56,723)
Shareholders' equity	128,579	147,101	146,865	94,285	65,369