



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)



Interim Report 2005

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

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

**HIGHLIGHTS
(Unaudited)**

- Turnover of the Company for the six months ended 30 June, 2005 was approximately RMB26,604,000 (2004: RMB25,234,000), representing an increase of approximately 5% as compared with the same period in the previous year.
- Profit/(loss) attributable to shareholders of the Company ("Shareholders") for the six months ended 30 June, 2005 was approximately RMB(1,338,000) (2004: RMB(600,000)).
- Earnings/(loss) per share ("Shares") of the Company for the six months ended 30 June, 2005 was approximately RMB(0.2) cents.
- The Directors do not recommend the payment of any dividend for the six months ended 30 June, 2005.

RESULTS (UNAUDITED)

The board of Directors ("Board") is pleased to announce the unaudited results of the Company for the six months ended 30 June, 2005, together with the comparative figures for the corresponding periods of the previous financial year, as follows:

| | Notes | Six months ended 30 June, | | Three months ended 30 June, | |
|--|-------|------------------------------|-----------------|--------------------------------|-----------------|
| | | 2005 RMB'000 | 2004 RMB'000 | 2005 RMB'000 | 2004 RMB'000 |
| Turnover | b | 26,604 | 25,234 | 15,195 | 14,932 |
| Cost of sales | | (17,115) | (15,452) | (9,661) | (9,437) |
| Gross profit | | 9,489 | 9,782 | 5,534 | 5,495 |
| Other revenue | c | 1 | - | - | - |
| Distribution and selling expenses | | (4,541) | (4,523) | (2,508) | (2,361) |
| General, administrative and other operating expenses | | (5,561) | (5,182) | (2,884) | (2,892) |
| Operating profit | d | (612) | 77 | 142 | 242 |
| Finance costs | | (726) | (677) | (369) | (337) |
| Profit before taxation | | (1,338) | (600) | (227) | (95) |
| Taxation | e | - | - | - | - |
| Profit attributable to shareholders | | (1,338) | (600) | (227) | (95) |
| Dividends | | N/A | N/A | N/A | N/A |
| | | RMB | RMB | RMB | RMB |
| Earnings per Share-basic | f | (0.2)cents | (0.1) cents | 0 cents | 0 cents |

CONDENSED BALANCE SHEET

| | | As at 30 June, 2005 (Unaudited) RMB'000 | As at 31 December, 2004 (Audited) RMB'000 |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Intangible assets, net | h | 9,221 | 10,178 |
| Fixed assets, net | i | 118,998 | 119,801 |
| | | 128,219 | 129,979 |
| CURRENT ASSETS | | | |
| Inventories | | 6,828 | 7,172 |
| Accounts receivable, net | j | 47,101 | 40,220 |
| Advance to staff | | 4,368 | 4,368 |
| Prepayment and other current assets | | 2,102 | 597 |
| Amounts due from related parties | | 4,162 | 4,162 |
| Cash and bank deposits | | 1,831 | 5,987 |
| | | 66,392 | 62,506 |
| CURRENT LIABILITIES | | | |
| Short-term borrowings | | 34,520 | 34,520 |
| Accounts payable | k | 6,935 | 6,892 |
| Advance payments from customers | | 8,692 | 5,896 |
| Payable for intangible assets | | — | — |
| Accruals and other payables | | 14,991 | 13,946 |
| Amounts due to related parties | | — | — |
| Income tax payable | | 2,232 | 2,652 |
| | | 67,370 | 63,906 |
| NET CURRENT ASSETS | | (978) | (1,400) |
| NET ASSETS | | 127,241 | 128,579 |
| NON-CURRENT LIABILITIES | | | |
| Long-term borrowings | | — | — |
| | | 127,241 | 128,579 |
| CAPITAL AND RESERVES | | | |
| Share capital | l | 74,665 | 74,665 |
| Reserves | | 52,576 | 53,914 |
| TOTAL CAPITAL AND RESERVES | | 127,241 | 128,579 |

CONDENSED STATEMENT OF CASH FLOW

| | Six months ended 30 June, 2005 (Unaudited) RMB'000 | 2004 (Unaudited) RMB'000 |
|---|--|--------------------------------|
| Net cash inflow from operating activities | (2,205) | 4,369 |
| Net cash outflow from investing activities | (1,951) | (4,932) |
| Net cash inflow from financing activities | — | — |
| Decrease in cash and cash equivalents | (4,156) | (563) |
| Cash and cash equivalents at beginning of period | 5,987 | 2,866 |
| Cash and cash equivalents at end of period Represented by Cash and Bank Balances | 1,831 | 2,303 |

Notes:

a. Accounting policy and basis of presentation

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

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

The principal accounting policies used in the preparation of the unaudited financial statement of the Company for the six months ended 30 June, 2005 are consistent with those used in the audited accounts issued for the year ended 31 December, 2004.

b. Turnover

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

c. Other revenue

| | Six months ended 30 June, 2005 | | Three months ended 30 June, 2005 | |
|------------------------|--------------------------------------|-----------------|--|-----------------|
| | RMB'000 | 2004 RMB'000 | RMB'000 | 2004 RMB'000 |
| - Government subsidies | - | - | - | - |
| - Others | 1 | - | - | - |
| | 1 | - | - | - |

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

d. Operating profit

Operating profit is stated after charging the following items:

| | Six months ended 30 June, 2005 | | Three months ended 30 June, 2005 | |
|--|--------------------------------------|-----------------|--|-----------------|
| | RMB'000 | 2004 RMB'000 | RMB'000 | 2004 RMB'000 |
| - Interest expenses | 723 | 673 | 365 | 337 |
| - Depreciation of fixed assets | 2,746 | 2,586 | 1,380 | 1,302 |
| - Amortization of intangible assets | 965 | 964 | 482 | 482 |

e. Taxation

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

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

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

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

f. Earnings per Share

The calculation of basic earnings per Share for a relevant period is based on unaudited profit attributable to Shareholders for the period, divided by the respective weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares in issue for the six months and three months ended 30 June, 2005 are 746,654,240 and 746,654,240 respectively (2004: 746,654,240 and 746,654,240 respectively).

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

g. Segment reporting

No business segment information (primary segment information) has been disclosed as the Company is operating in a single business segment that 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.

h. Intangible assets, net

| | As at 30 June, 2005 (Unaudited) RMB'000 | As at 31 December, 2004 (Audited) RMB'000 |
|--|--|--|
| Net book value, beginning of period/year | 10,178 | 11,802 |
| Additions | 8 | 33 |
| Disposals | - | - |
| Amortisation | (965) | (1,657) |
| Net book value, end of period/year | 9,221 | 10,178 |

Included in the cost of intangible assets were technical know-how and the accounting software. The technical know-how was amortized over 10 years.

i. Fixed assets, net

| | As at 30 June, 2005 (Unaudited) RMB'000 | As at 31 December, 2004 (Audited) RMB'000 |
|--|--|--|
| Net book value, beginning of period/year | 119,801 | 123,229 |
| Additions | 1,943 | 3,634 |
| Revaluation | - | - |
| Disposals | - | - |
| Depreciation | (2,746) | (7,062) |
| Net book value, end of period/year | 118,998 | 119,801 |

j. **Accounts receivable, net**

| | As at 30 June, 2005 (Unaudited) RMB'000 | As at 31 December, 2004 (Audited) RMB'000 |
|--|---|---|
| Accounts receivable | 71,818 | 64,937 |
| Less: Provision for doubtful receivables | (24,717) | (24,717) |
| | <u>47,101</u> | <u>40,220</u> |

Aging analysis of accounts receivable is as follow:

| | As at 30 June, 2005 (Unaudited) RMB'000 | As at 31 December, 2004 (Audited) RMB'000 |
|-----------------|---|---|
| Aged: | | |
| 0-30 days | 23,846 | 20,195 |
| 31-60 days | 3,887 | 3,172 |
| 61-90 days | 4,566 | 2,865 |
| 91-180 days | 5,524 | 5,999 |
| 181 to 270 days | 4,742 | 4,648 |
| 271-365 days | 3,288 | 3,097 |
| over 365 days | 25,965 | 24,961 |
| | <u>71,818</u> | <u>64,937</u> |

To reduce exposure to credit risk, the Company closely monitors the outstanding balance owed by customers, follows up each debtor overdue more than 120 days and enforces collection of the outstanding balances through salesperson.

k. **Accounts payable**

The aging analysis of accounts payable is as follows:

| | As at 30 June, 2005 (Unaudited) RMB'000 | As at 31 December, 2004 (Audited) RMB'000 |
|------------------|---|---|
| Aged: | | |
| 0 to 1 month | 768 | 4,753 |
| 1 to 6 months | 5,624 | 633 |
| 6 to 12 months | 17 | 163 |
| 1 to 2 years | - | 899 |
| 2 years and over | 526 | 444 |
| | <u>6,935</u> | <u>6,892</u> |

I. Share capital

| | Six months ended 30 June, 2005 | | As at 31 December, 2004 | |
|---|-----------------------------------|---------------------------|-----------------------------|---------------------------|
| | <i>Number of shares</i> | <i>Amount RMB'000</i> | <i>Number of shares</i> | <i>Amount RMB'000</i> |
| Issued and fully paid (RMB0.10 each) | | | | |
| Beginning of period/year | 746,654,240 | 74,665 | 746,654,240 | 74,665 |
| Placing of shares | - | - | - | - |
| Repurchase of shares | - | - | - | - |
| End of period/year | 746,654,240 | 74,665 | 746,654,240 | 74,665 |

MOVEMENT IN RESERVES

The movements of reserves are as follows:

| | Capital Reserve | | | Statutory public welfare fund | Statutory revenue reserve | Retained earning | Total reserves |
|---|-----------------------------|---|-------------------|--|---------------------------------|---------------------|-------------------|
| | Share premium RMB'000 | Property revaluation Reserve RMB'000 | Others RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January, 2004 | 19,027 | 6,886 | 9,327 | 3,928 | 5,757 | 27,511 | 72,436 |
| Net profit for the period | - | - | - | - | - | (600) | (600) |
| Government Subsidies | - | - | - | - | - | - | - |
| Profit appropriated to reserve funds | - | - | - | - | - | - | - |
| As at 30 June, 2004 | 19,027 | 6,886 | 9,327 | 3,928 | 5,757 | 26,911 | 71,836 |
| As at 1 January, 2005 | 19,027 | 6,886 | 11,326 | 3,928 | 5,757 | 6,990 | 53,914 |
| Net profit for the period | - | - | - | - | - | (1,338) | (1,338) |
| Government Subsidies | - | - | - | - | - | - | - |
| Profit appropriated to reserve funds | - | - | - | - | - | - | - |
| As at 30 June, 2005 | 19,027 | 6,886 | 11,326 | 3,928 | 5,757 | 5,652 | 52,576 |

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June, 2005 (2004: nil).

BUSINESS REVIEW AND PROSPECTS

Business review

In March 2005, the Company has been awarded as an Enterprise of Excellent Reliability by Administration for Industry and Commerce of Jilin Province, the PRC.

Up to now, the Company has seven types of GMP standard production line which including large volume injection, small volume injection, granules, tablets, capsules, liquid pills and medical raw material.

During the period under review, the Company continuous expend its sales and distribution networks and launching a series of nationwide promotional campaign, the public awareness and acceptance of Yong Chong Cao Jun Power Capsules「蛹虫草菌粉胶囊」has been gradually improved, as a result, turnover increased 5% to approximately RMB26,604,000, from RMB 25,234,000.

For the period ended 30 June, 2005, profit/(loss) attributable to Shareholders amounted to approximately RMB(1,338,000) (2004: RMB(600,000)) due to intensified price competition. To improve its profitability, the Company initiates to implement a new round of internal campaign in increasing efficiency and cutting cost.

Enhancing management and execution of internal control rules

To achieve the goal of being a resource-saving and environmentally-friendly enterprise, the Company will make full use of new environmental protection facilities and enhance environmental protection. The Company will realize its target in respect of energy saving by adopting new technologies and equipment and upgrading existing technical skills and production equipment.

The Company will establish and improve its incentive and control policies, in particular its incentives for staff in the sales and R&D departments to promote the development of new products and the marketing of existing products. On the other hand, the Company will enhance the control of operational risks and carry out periodical or special internal audits to ensure good operations.

Through the implementation and examination of the Company's rules and regulations, all the staff of the Company will concentrate on the business goals of the Company and do their best to accomplish their work.

Prospects

Looking ahead, the Directors believed that the Company still facing numerous uncertain factors in its operations and production, including the uptrend in the cost of raw material, energy, power and transportation. Serious structural problems still exist in the domestic pharmaceutical industry. The mismatch between supply and demand in the pharmaceutical market still remains obvious, which results in more intense competition. These factors limit the rapid growth of the Company.

To face with this challenge, the Company will prudently deploy its resources, monitor its operating costs, implement appropriate corrective cost control measures to save cost, and take full advantage of its own technology, products and quality as well as the reputation of the “Northeast Tiger” brand.

After the outbreak of SARS, public awareness of healthcare is rising, with increasing demand for the Company’s products, and effect of promotion campaigns, the Directors of the Company are optimistic towards its result for the rest of year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June, 2005, the Company had total assets of approximately RMB194,611,000 which were financed by current liabilities of approximately RMB67,370,000 and shareholders equity of approximately RMB127,241,000.

The Company generally services its debts primarily through cash generated from its operations. The financial position of the Company remains healthy. As at 30 June, 2005, the Company had cash and bank balances of approximately RMB 1,831,000, and short-term borrowings of RMB34,520,000, including unsecured interest-free loan of RMB10,000,000 from China Hi-Tech Investment Company. Taken into consideration of its current financial resources, the Directors believe that the Company shall have adequate fund for its continual operation and development.

Except for the borrowings disclosed above, as at 30 June, 2005, the Company did not have any committed borrowing facilities.

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

As at 30 June, 2005, 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 | Number of Domestic Shares held | Approximate percentage of shareholding (%) |
|---|---------------------------------------|---|
| Xu Zhe | 183,482,440 | 24.57% |
| Xu Dao Tian | 150,644,480 | 20.18% |
| Liu Xiao Hong | 1,888,790 | 0.25% |
| Zhang Ya Bin | 1,618,960 | 0.22% |
| Leng Zhan Ren | 1,349,140 | 0.18% |
| | 338,983,810 | 45.40% |

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.

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

As at 30 June, 2005, the Company was not a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and Supervisors or their spouses or children under the age of 18 had any right to subscribe the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Supervisor, as at 30 June, 2005, the persons or companies (not being a Director or Supervisor of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follow:

- **Long positions in Shares**

| Name | Number of Domestic Shares held | Approximate percentage of shareholding (%) |
|------|--------------------------------|--|
|------|--------------------------------|--|

| | | |
|--|-------------|-------|
| Jilin Far East Pharmaceutical Holdings Company Limited | 194,194,580 | 26.01 |
|--|-------------|-------|

Save as disclosed above, as at 30 June, 2005, 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) have an interest in any business that competes or may compete with the business of the Company.

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 who are independent non-executive Directors.

The audit committee had conducted a meeting and reviewed the Company's unaudited results for the period ended 30 June, 2005 and was of the opinion that the preparation of unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

PRACTICES AND PROCEDURES OF THE BOARD

The Directors 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.

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

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

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders for their full support and to our staff for their unremitting efforts and contribution made to the Company.

By Order of the Board

Xu Zhe

Chairman

Jilin, the PRC
12 August, 2005

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

Executive Directors:

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

Independent Non-Executive Directors:

Liu Jin
Niu Shu Min
Zhao Zhen Xing