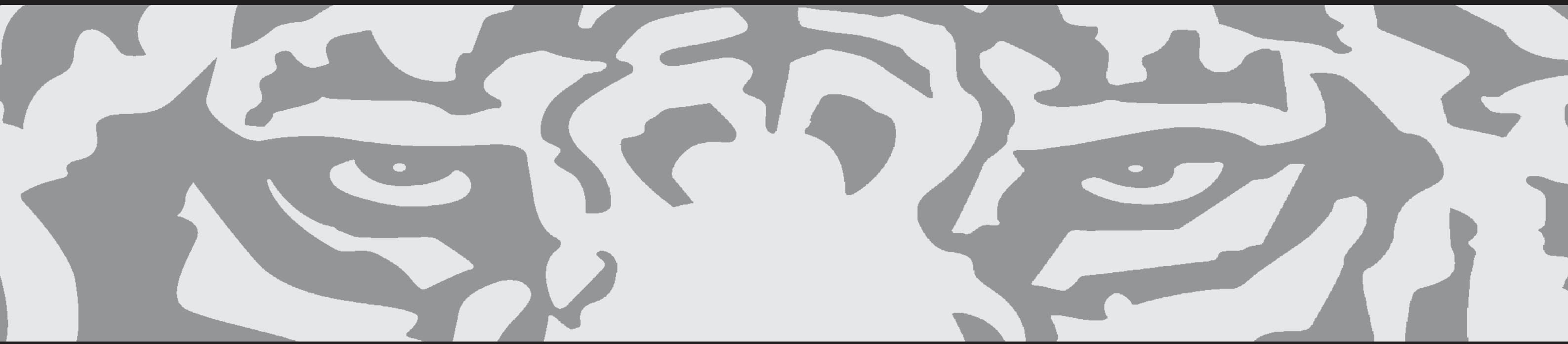
東北虎藥業股份有限公司
NORTHEAST TIGER PHARMACEUTICAL CO., LTD.

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

Annual Report 2005

Northeast Tiger Pharmaceutical Co., Ltd. 東北虎藥業股份有限公司 Annual Report 2005 二零零五年年報



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid report in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

This report, for which the directors ("Directors") of Northeast Tiger Pharmaceutical Co., Ltd. (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 ("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.

Content

Corporate Information

EXECUTIVE DIRECTORS
Xu Zhe *(Chairman)*
Du Li Hua *(Deputy Chairman)*
Xu Dao Tian
(Deputy Chairman & General Manager)
Leng Zhan Ren

INDEPENDENT NON-EXECUTIVE DIRECTORS
Liu Jin
Niu Shu Min
Zhao Zhen Xing

SUPERVISORS
Zhang Ya Bin
Chen Lin Bo
Yin Hong

QUALIFIED ACCOUNTANT
Lam Kai Yeung, *ACCA, AHKICPA*

COMPANY SECRETARY
Lam Kai Yeung, *ACCA, AHKICPA*

AUDIT COMMITTEE
Liu Jin
Niu Shu Min
Zhao Zhen Xing

COMPLIANCE OFFICER
Du Li Hua

AUTHORIZED REPRESENTATIVES
Xu Dao Tian
Leng Zhan Ren

GEM STOCK CODE
8197

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE
Lam Kai Yeung

AUDITORS
HLB Hodgson Impey Cheng

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. 3, No. 2 Road,
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. (the "Company"), I hereby present to our shareholders the annual report of the Company for the year ended 31 December 2005.

The Company was established in Jilin High-Technology Development Zone, the People's Republic of China ("PRC"). It is principally engaged in the manufacture and sale of Chinese medicines under the brand name of "Northeast Tiger" in the PRC as well as conducting pharmaceutical research and development.

The PRC government accelerated the reform of the healthcare system and the establishment of a medical insurance system, continued to extend public bidding in medicine procurement and renew the medicine write-off catalogue. The domestic pharmaceutical market and pharmaceutical sector were therefore confronted with certain unforeseen factors as a result of a unified trend between the domestic and international markets and the implementation of many reform policies.

The structural contradiction of excessive supply that was generated from the low-level, redundant construction in the domestic pharmaceutical industry came to the fore. Competition resulting from the decrease in the price of pharmaceutical products became more severe. At the same time, the prices of Chinese medicine raw material continued to increase.

For the year ended 31 December 2005, turnover of the Company increased by approximately 10% to approximately RMB50,914,000 and overall gross profit margin increased by approximately 3% from approximately 30% to approximately 33%. As for the loss attributable to shareholders, the Company made a provision for impairment on the intellectual property rights relating to Yong Chong Cao Jun Powder and Yong Chong Cao Powder Capsules, a new Chinese medicine under State Category I, of RMB8,460,000. In the opinion of the Directors, Yong Chong Cao Powder Capsules is a kind of new Chinese medicine under State Category I, which is still quite rare in the PRC, the value of intellectual property rights does not impair, so the impairment provision are made only for prudence reason. Although the operating environment is so tough, excluding the impairment losses on intangible assets of approximately RMB8,460,000, the Company still successfully managed to reduce its loss attributable to shareholders from approximately RMB18,397,000 to approximately RMB15,777,000, representing a decrease of approximately 14%. Meanwhile, due to tighter cost control, general, administrative and operating expenses decreased by approximately 25% to approximately RMB20,836,000.

The Company rapidly responded to changes in environmental conditions and improved its capability in dealing with such crisis. Through further adjustment to the product mix, market promotion of its products, the Company strengthened its position. At the same time, the Company strengthened the internal management and the improvement of technologies to sharpen its comprehensive competitive edge. The Company kept a good cycle in its production and operation due to the implementation of guiding principles and aims set down at the beginning of the year and the strict budget management. Thus, the Company achieved a stable situation in its operations through enhanced basic management, control over expenses

1. **Further structural adjustment by focusing on the main development areas**

   The Company took advantage of the historical opportunities arising from the periodic modulation in the pharmaceutical sector. Through cooperation with other companies, the Company has further promoted its products and enhanced its position in the market of products that treating circulatory occlusion, and as a result enhancing the revenue of the Company.

2. **Improve market position by promotion of the Company's products**

   Influenced by a series of state policies for lowering the medicine prices, the domestic market responded negatively to the drop of medicine prices, which resulted in, for a short time, the stagnancy in the sales of the Company's products that treating circulatory occlusion and Yong Chong Cao Jun Powder and Yong Chong Cao Powder Capsules. Under such unfavorable circumstances, the Company rapidly adopted measures to accommodate itself to the changes of market and improve aggressiveness of its sales force. Making full use of its superiorities in respect of its technology and brand, the Company took active part in the public bidding in medicine procurements conducted by medical institutions over the PRC. Meanwhile, the Company further consolidated and expanded its existing sales channel of treating circulatory occlusion and chose the key areas and cities in the PRC as the main distribution channels of its sales network. The Company strived to have sales agencies in the main regions together with distribution channels complementing and coordinating with each other. The market shares of the Company's products that treating circulatory occlusion steadied again.

3. **Strengthening of overall competitiveness by corporate management and improvement of technologies**

   The Company continued to carry out the activities that are conducive to increasing the Company's revenue, reduce its operating costs and to promote technical improvement of the production methods for different products.

   The system of tendering for procurement has improved significantly and will be further applied through Internet. By reducing the courses in the procurement, the total expenses and expenditure in relation to the procurement were saved in the year.

   The Company also further strengthened its basic management. The Company has successfully accomplished the annual Good Manufacturing Practice ("GMP") review conducted by the Jilin Provincial Food and Drug Administration of the PRC. Regarding Research and Development, the application for production of 100ml Xie Sha Tong Infusion Fluid has been submitted to State Food and Drug Administration in December 2005.

The Company will reduce the consumption of raw materials and improve the level of technical input of its products by way of improvement in the production techniques. The improvement of quality makes it feasible for the Company to satisfy the different requirements of individual customers. The research on the improvement of production techniques ensures the reduction in the production costs of the Company's products. The Company will further improve the success ratio in the transformation of new products from scientific research to industrial production, which will result in the improvement of its competitiveness.

Focusing on market promotion, the Company will place emphasis on the development of its market network, brand, rules and sales personnel. The Company will pay more attention to the sale of products that treating circulatory occlusion, especially the sale of new drugs, to improve its market share. The Company will minimise operating risk by enhancing the credit management. By adopting feasible measures, the Company will reduce the amount of account receivables for the purpose of lowering loss and increasing profit. Under the strategy for balancing production, sales and payments, the operation effectiveness of the Company will improve.

PROSPECTS

The world economy is recovering but the situation is uncertain to certain extension. Accompanying with the improvement of economic policies and legal environment of the PRC, the economy of the PRC should maintain good growth momentum aided by a new system being set up allowing the reasonable flow of the social resources. The Company will have more favorable conditions to develop in the future following the reform of the pharmaceutical industry, the completion of GMP renovation of production equipment and the reform of social medical care system as well as the establishment of medical insurance system in the PRC in past years. However, the disorderly situation will also exist in the domestic pharmaceutical market for a sustained period and the upward tendency in the prices of raw materials for production will be maintained in the coming year. All these factors will influence the increase of the Company's income. To face such challenge, the Company will reinforce its efforts in four specific areas in this year:

1. By trying the Company's utmost to enhance its market position, particularly in the sales of products that treating circulatory occlusion. The Company plans to adjust and revise its marketing strategies and marketing scheme. It will improve the market-oriented rapid feedback system to obtain view of customer needs. By taking advantage of its quality and brand name, the Company will develop the markets through diversified measures. Through market subdivision, the Company will review the relevant marketing strategies for different product groups in order to develop more sales channels.

2. The Company will recruit talented and able persons. In relation to the process of selection and promotion of the staff, the Company will formulate a plan to develop its staff and recruit some other persons from outside to occupy key management positions in sales and scientific research. The Company also encourages employees to become experts in their work. Through the amendment of the motivation and discipline system, the Company will enhance the assessment of the management's and the officers' work to stimulate their enthusiasm for work and build up a team spirit. The Company strives to make its staff experts in their work. The supervisors of workshop and technical workers are called on to become experts of production. The Company will continue to pursue the policy of inviting public tenders in all its procurements and carry out the activities that are designed to increase the Company's revenue and reducing its operating costs to reduce the costs of products.

3. To strengthen basic management and to continuous improve management standards. The Company will revise the rules of budget management policies, rectify budget procedures and strengthen the execution and examination of budgets in order to control expenditure. Meanwhile, the Company plans to strictly enforce risk management procedures to protect its regular operations. Net increases in cash and cash equivalent benefited from the policies implemented to balance the production, sales and accounts receivable.

4. Enhancing management and execution of internal control rules. To achieve the goal of being a resource-saving and environmental-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 aim to 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.

By Order of the Board
Xu Zhe
Chairman

Jilin, the PRC
29 March, 2006

For the year ended 31 December 2005, turnover amounted to approximately RMB50,914,000 representing a increase of approximately 10% as compared with the corresponding period in 2004. Overall gross profit margin increased by 3% from approximately 30% to approximately 33%, due to the fact that the Company has successfully protect its market position in the sales of products that treating circulatory occlusion and further diversify it.

For the year ended 31 December 2005, the Company suffered loss, loss attributable to Shareholders amounted to approximately RMB24,237,000 (2004: Loss RMB18,397,000). The main reasons attribute to the loss included: i) provision of bad debts increased RMB3,868,000; ii) in the opinion of our auditor, the Company should provide for impairment losses on intellectual property rights of Yong Chong Cao Jun Powder and Yong Chong Cao Powder Capsules, a new Chinese medicine under State Category I, in a consideration of RMB8,460,000, and provide for impairment loss on building of RMB2,514,000. In the opinion of Directors, Yong Chong Cao Powder Capsules is one kind of a new Chinese medicine under State Category I, which is still quite rare in PRC, its value of intellectual property rights does not impair, and everyone know that the property value in PRC is increasing, so the two impairment provision are made only for prudence reason; iii) High raw material, energy and power price, distribution and selling expenses increased 85% to approximately RMB9,341,000 due to promotion campaign. However, up to now, the Company's operation is as normal as usual.

RESPONSE TO QUALIFIED AUDIT OPINION

(1). All domestic shareholders of the Company which representing 72.28% of shareholding have expressed their financial commitment to support the Company's future operations and development, and the total remaining reserves of the Company amounted to approximately RMB23,944,000. Moreover, among total net value RMB13,040,000 of land use right, only RMB954,000 were pledged as security for short-term bank loans, and among total net value RMB58,210,000 of property, plant and equipment, only RMB16,782,000 were pledged as security for short-term bank loans, these two assets can be further pledged for more bank loans, so the Directors of the Company believed that the Company does not have any GOING CONCERN problem.

(2). Regarding unsecured interest-free loan of RMB10,000,000 from China Hi-Tech Investment Company, as the loan is unsecured and interest-free, so the Directors believed that the financial risk of the Company being forced to repay is minimal. Virtually, the loan was grant by the Government to support the Hi-Tech research and development of the Company.

(3). Regarding the fair value of the amount of Accounts receivable, the Company had contacted and urged our customers to respond by mail or fax to our confirmation letters as soon as possible, up to now, most of the confirmation letters had been received by our auditors. Concerning the settled amount of Accounts receiveble subsequent to the balance sheet date and up to the date of this report was only RMB2.3m, we believed this is relevant to the Chinese tradition that not to urge clients to repay in the beginning of the new Chinese year, and the Company is now pushing to collect the outstanding Account receivebles.

(4). Currently, turnover of the Company is rising, the overall gross profit of the Company does decline, and the remaining technical know-how has been written off by auditor, so the prospect of the Company should be bright, the Directors believe that the Company will turn to profit again in year 2006.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2005, the Company had total assets of approximately RMB163,097,000 which were financed by current liabilities of approximately RMB64,488,000, shareholders' equity of approximately RMB98,609,000.

The Company generally services its debts primarily through cash generated from its operations. As at 31 December 2005, the Company had cash and bank balances of approximately RMB17,207,000, and short-term bank loans 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, but will exclude the possibility of raising working capitals once required by way of additional bank loans or equity financing in future.

As at 31 December 2005, the liquidity ratio, represented by a ratio between current assets over current liabilities, was 1.13 : 1, the gearing ratio of the Company, defined as a ratio between total debts and shareholders' equity, was 65%, it seems that the two ratios is quite healthy.

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.

DIRECTORS

Executive Directors

Xu Zhe, aged 36, 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 55, 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 58, 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 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.

Leng Zhan Ren, aged 42, 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 36, 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 66, 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.

Zhao Zhen Xing, aged 63, 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 43, 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 50, 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 36, 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 35, 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 37, 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 2005, 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 compiled with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Company. Up to now, none of the Directors and the officers have abused their powers, caused damage to the interests of the Company and infringed upon the interests of the company and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

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

By Order of the Supervisory Committee
Zhang Ya Bin
Chairman

Jilin, the PRC
29 March 2006

INTRODUCTION

Subject to the deviation as disclosed on this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing a formal and transparent procedures to protect and maximize the interests of shareholders during the period under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2005.

BOARD OF DIRECTORS AND BOARD MEETING

The Board currently consists of 4 executive Directors and 3 independent non-executive Directors.

Executive Directors:
Mr. Xu Zhe *(Chairman)*
Mr. Xu Dao Tian *(Chief Executive Officer)*
Madam Du Li Hua
Ms. Leng Zhan Ren

Independent non-executive Directors:
Miss Liu Jin
Miss Niu Shu Min
Miss Zhao Zhen Xing

The board of Directors is responsible for the Company's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out on pages 10 to 12 of this Annual Report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Except that Mr. Xu Zhe, Xu Dao Tian and Madam Du Li Hua are member of a family, there is no relationship among the members of the board of Directors.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Miss. Liu Jin, Miss Niu Shu Min and Ms. Zhao Zhen Xing are the independent non-executive Directors. Miss. Liu Jin and Miss Niu Shu Min Li have been appointed for a term of three years commencing on 20 May 2005. Mr. Zhao Zhen Xing has been appointed for a term of three years commencing on 30 September 2004. All of them are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

Under the code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Xu Zhe, being the chairman of the Company, is not subject to retirement by rotation. In order to comply with the code provision A.4.2, Mr. Xu Dao Tian, Madam Du Li Hua, Mr. Leng Zhan Ren, Miss Liu Jin and Miss Niu Shu Min, having served their directorship for over three years will retire at the forthcoming annual general meeting of the company, and being eligible, will offer himself for re-election.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive Director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive Directors to be independent.

During the year under review, Mr. Xu Zhe was the chairman and Mr. Xu Dao Tian was the chief executive officer.

The roles of the chairman and chief executive officer are segregated and are not exercised by the same individual during the year under review, the chairman's responsibility is to manage the Board while the chief executive officer's is to manage the business of the Company.

The board of Directors held a full board meeting for each quarter.

Details of the attendance of the meetings of the board of Directors are as follows:

Directors Attendance

Mr. Xu Zhe	4/4
Mr. Xu Dao Tian	4/4
Madam Du Li Hua	4/4
Mr. Leng Zhan Ren	4/4
Ms. Liu Jin	4/4
Ms. Niu Shu Min	4/4
Mr. Zhao Zhen Xing	4/4

Apart from the above regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each board meeting.

REMUNERATION COMMITTEE

The remuneration committee was established in August 2005. The chairman of the committee is Miss. Liu Jin, a non-executive Director, and other members are Miss Niu Shu Min and Mr. Zhao Zhen Xin, both of them are independent non-executive Directors, thus the all being independent non-executive Directors.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. It was not until August, 2005 that the Company established a remuneration committee as required under the code provision B.1.1.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the period under review, a meeting of the remuneration committee was held in November 2005. Details of the attendance of the meeting of the remuneration committee meeting are as follows:

Members	**Attendance**
Ms. Liu Jin	1/1
Ms. Niu Shu Min	1/1
Mr. Zhao Zhen Xing	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION OF DIRECTORS

No nomination committee was established by the Company during the year.

The Board of directors considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year.

During the period, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company.

Under code provision A.4.2 of the Corporate Governance Practices, every Director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Xu Zhe, being the chairman of the Company, is not subject to retirement by rotation.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Company and provide advice and comments on the Company's draft annual reports and accounts, half year reports and quarterly reports to Directors. The audit committee comprises three members, Miss Liu Jin, Miss Niu Shu Min and Mr. Zhao Zhen Xing. All of them are independent non-executive Directors. The chairman of the audit committee is Miss Liu Jin.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Attendance**
Ms. Liu Jin	4/4
Ms. Niu Shu Min	4/4
Mr. Zhao Zhen Xing	4/4

The Company's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2005 have been reviewed by the audit committee during the year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made. The audited consolidated results of the Company for the year have been reviewed by the audit committee.

Directors' Responsibility for the Financial Statements

The Directors knowledge their responsibilities for the preparation of the financial statements of the Company and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Company. The statements of the external auditors of the Company, HLB Hodgson Impey Cheng, about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 29 to 30 of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, other than those disclosed in Note 2(a) to the accompanying audited financial statements for the year ended 31 December 2005.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

AUDITORS

During the year under review, the performance of the external auditors of the Company has been reviewed and it is proposed to reappoint external auditors.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has disclosed all necessary information to the shareholders and investors in compliance with GEM Listing Rules and uses a number of formal communications channels to account to shareholders and investors for the Company. These include (i) the publication of quarterly and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) the Company replying to the enquires from shareholders timely; (iv) updated and key information of the Group available on website of the Company; (v) the Company's website offering communication channel between the Company and its shareholders and investors; and (vi) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters.

LOOKING FORWARD

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavour to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

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 19 May 2006 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 2005;

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 2005 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 consider and approve the remuneration proposals for Directors and supervisors of the Company for the year ending 31 December 2006;

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;

(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.

"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
29 March 2006

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 18 April 2005 to 19 May 2006 (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 13 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 29 April 2006.

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 2005.

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	81%
– five largest suppliers combined	88%
Sales	
– the largest customer	24%
– five largest customers combined	34%

None of the Directors, Supervisors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the income statement on page 30

The Directors do not recommend the payment of a dividend.

RESERVES

Movement of the reserves of the Company during the year is set out in Note 26 to the financial statements.

FIXED ASSETS

Details of the movements of fixed assets of the Company are set out in Note 17 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 2005 the Directors consider the impact on foreign exchange exposure of the Company is minimal.

CONTIGENT 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 no 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 AND INVESTMENTS

During the year, the Company has not disposed of any major assets and investments.

SHARE CAPITAL

Details of movement of share capital of the Company are set out in Note 25 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 *(Resigned)*

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 12(a) to the accompanying financial statements.

CHARGES ON ASSETS

As at 31 December 2005, land use rights and buildings with net book value of approximately RMB17,736,000 (2004: RMB27,085,000) 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 2005 are set out in Note 20 to the accompanying financial statements.

CONNECTED PARTY TRANSACTIONS

The related party transactions disclosed in Note 28 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 2005 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.

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

As at 31 December, 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 personally interested	Approximate percentage of Shareholding (%)
Xu Zhe	183,482,440	24.57
Xu Dao Tian	150,644,480	20.17
Zhang Ya Bin	1,618,960	0.21
Leng Zhan Ren	1,349,140	0.17
	338,983,810	45.12

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 31 December 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 31 December 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 (%)
Liu Yang	194,194,580	26.01

Save as disclosed above, as at 31 December 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) has 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 31 December 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 compiled with the requirement of Board practices and procedures as set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

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.

CLOSURE OF H SHARE REGISTER

The H share register of shareholders of the Company will be closed from 18 April 2006 to 19 May 2006 (both days inclusive).

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.

By Order of the Board
Xu Zhe
Chairman

Jilin, the PRC
29 March 2006

Auditors' Report

HLB 國衛會計師事務所 Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F., Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

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 31 to 67 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

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 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. However, the evidence available to us was limited by the matters referred to (1) and (2) below:

(1) In the absence of sufficient documentary evidence, we were unable to ascertain whether the assumptions made by the directors in preparing the financial statements on a going concern basis, as set out in Note 2(a) to the financial statements, are fair and reasonable. Accordingly, we were unable to satisfy ourselves that the going concern basis is proper and appropriate.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the going concern basis, which may have a consequential significant effect on the loss of the Company for the year and its net assets as at 31 December 2005 and the related disclosures thereof in the financial statements.

(2) Included in the Company's balance sheet as at 31 December 2005 are total accounts receivable of approximately RMB67,763,000 against which a total provision for doubtful receivables of approximately RMB28,585,000 has been made. Among the total accounts receivable of approximately RMB67,763,000, only approximately RMB2.3 million was settled subsequent to the balance sheet date and up to the date of this report. Due to the lack of adequate financial information in respect of these trade debtors, we were unable to carry out audit procedures necessary to satisfy ourselves as to whether the provision for doubtful receivables was appropriate and adequate and whether the Company's accounts receivable as at 31 December 2005 were fairly stated. Any adjustment that might have been found to be necessary in respect of the above would have a consequential significant effect on the loss of the Company for the year and its net assets as at 31 December 2005 and the related disclosures thereof in the financial statements.

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.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the possible effects of the limitations of scope in the evidence available to us relating to the matters referred to above, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2005 and of the loss and cash flows of the Company for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the matters referred to above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 29 March 2006

Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2005
(Expressed in Renminbi)

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Turnover	6	**50,914**	46,142
Cost of sales		**(34,157)**	(32,295)
Gross profit		**16,757**	13,847
Other revenues	6	**10**	2,015
Other net income	6	**1,950**	–
Impairment losses on buildings	17	**(2,514)**	–
Impairment losses on intangible assets	15	**(8,460)**	–
Distribution and selling expenses		**(9,341)**	(5,037)
General, administrative and operating expenses		**(20,836)**	(27,745)
Loss from operations	7	**(22,434)**	(16,920)
Finance costs	8	**(1,584)**	(1,413)
Loss before income tax expense		**(24,018)**	(18,333)
Income tax expense	9	**(219)**	(64)
Loss attributable to shareholders	26	**(24,237)**	(18,397)
Dividends	11	**–**	–
Loss per share			
Basic	10	**(3.25) cents**	(2.46) cents
Diluted	10	**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 2005
(Expressed in Renminbi)

	Note	Share capital RMB'000 (Note 25)	Capital reserve: Share premium RMB'000 (Note 26)	Capital reserve: Revaluation reserve RMB'000 (Note 26)	Capital reserve: Others RMB'000 (Note 26)	Statutory public welfare fund RMB'000 (Note 26)	Statutory revenue reserve RMB'000 (Note 26)	(Accumulated losses)/ retained earnings RMB'000 (Note 26)	Total RMB'000
As at 1 January 2004									
– As previously reported		74,665	19,027	6,886	9,327	3,928	5,757	27,511	147,101
– Effect of adopting HKAS 17	2(a)	-	-	(5,314)	-	-	-	1,028	(4,286)
– As restated		74,665	19,027	1,572	9,327	3,928	5,757	28,539	142,815
Loss for the year									
– As previously reported		-	-	-	-	-	-	(18,522)	(18,522)
– Effect of adopting HKAS 17	2(a)	-	-	-	-	-	-	125	125
– As restated		-	-	-	-	-	-	(18,397)	(18,397)
Transfer to capital reserve in respect of government subsidies (Note 6)		-	-	-	1,999	-	-	(1,999)	-
		-	-	-	1,999	-	-	(20,396)	(18,397)
As at 31 December 2004 and 1 January 2005 (as restated)		74,665	19,027	1,572	11,326	3,928	5,757	8,143	124,418
Loss for the year		-	-	-	-	-	-	(24,237)	(24,237)
Reversal of revaluation on buildings		-	-	(1,572)	-	-	-	-	(1,572)
As at 31 December 2005		**74,665**	**19,027**	**-**	**11,326**	**3,928**	**5,757**	**(16,094)**	**98,609**

Balance Sheet

AS AT 31 DECEMBER 2005

(Expressed in Renminbi)

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Non-current assets			
Intangible assets	15	**76**	10,178
Land use rights	16	**13,040**	13,318
Property, plant and equipment	17	**77,394**	102,322
		90,510	125,818
Current assets			
Inventories	18	**10,763**	7,172
Accounts receivable	19	**39,178**	40,220
Advances to staff		**749**	4,368
Prepayments and other current assets		**4,690**	597
Amount due from a related party	28	**–**	4,162
Cash and bank deposits		**17,207**	5,987
		72,587	62,506
Total assets		**163,097**	188,324
Less: Current liabilities			
Short-term borrowings	20	**34,520**	34,520
Accounts payable	21	**4,983**	6,892
Advance payments from customers		**5,294**	5,896
Accruals and other payables	22	**16,820**	13,946
Income tax payable	23	**54**	54
Deferred tax liabilities	24	**2,817**	2,598
		64,488	63,906
Net current assets/(liabilities)		**8,099**	(1,400)
Net assets		**98,609**	124,418
Capital and reserves attributable to the Company's equity holders			
Share capital	25	**74,665**	74,665
Reserves	26	**23,944**	49,753
Total equity		**98,609**	124,418

The financial statements were approved by the Board of Directors on 29 March 2006 and signed on behalf of the Board by:

Xu Zhe
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 2005

(Expressed in Renminbi)

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Net cash (used in)/ generated from operating activities	27	**(5,243)**	6,222
Cash flows from investing activities			
Addition of property, plant and equipment		**(1,740)**	(3,634)
Proceeds from sale of property, plant and equipment		**17,679**	–
Addition of intangible assets		**(18)**	(33)
Increase in payable for acquisition of fixed assets		**533**	980
Decrease in amount due from a related party		**–**	71
Interest received		**9**	15
Net cash generated from/ (used in) investing activities		**16,463**	(2,601)
Cash flows from financing activities			
Repayment of short-term borrowings		**(24,500)**	(25,000)
Proceeds from short-term borrowings		**24,500**	24,500
Net cash used in financing activities		**–**	(500)
Net increase in cash and cash equivalents		**11,220**	3,121
Cash and cash equivalents as at 1 January		**5,987**	2,866
Cash and cash equivalents as at 31 December		**17,207**	5,987
Analysis of balances of cash and cash equivalents			
Cash and bank deposits		**17,207**	5,987

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.

1. CORPORATE INFORMATION

Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") is a joint stock limited company incorporated in the People's Republic of China (the "PRC"). The address of its registered office is No. 3, No. 2 Road, Jilin Hi-Tech Development Zone, Jilin City, Jilin Province, 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 financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") 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").

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting polices applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of buildings.

The preparation of the financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Going concern

The Company incurred significant losses for each of the two years ended 31 December 2005. As at 31 December 2005, the Company had short-term bank and other borrowings of approximately RMB34,520,000, of which a loan of RMB10,000,000 has been overdue for repayment since August 2003. Nevertheless, the directors have adopted the going concern basis in the preparation of the financial statements. The validity of the going concern basis depends upon the Company's success in recovering its outstanding accounts receivable and in realising its inventories through sale in the normal course of its business, the continuing financial support from the Company's shareholders, banker and other providers of finance and the successful attainment of profitable and positive cash flow operations.

The directors are of the view that the above measures will enable the Company to continue as a going concern and that the Company will have sufficient working capital for its present requirements. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on the going concern basis. However, if these measures were not to be successful or insufficient, or if the going concern basis were not to be appropriate, adjustments would have to be made to the financial statements to reduce the value of the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

The adoption of new/revised HKFRSs

For the year ended 31 December 2005, the Company adopted the new/revised standards and interpretations of HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements under these HKFRSs.

(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRSs (continued)

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS Int 15	Operating Leases – Incentives

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 20, 21, 23, 24, 33, 36, 37, 38 and HKAS-Int 15 did not result in substantial changes to the Company's accounting policies. In summary:

– HKAS 1 has affected the presentation of and other disclosures in the financial statements.

– HKASs 2, 7, 8, 10, 12, 16, 18, 19, 20, 21, 23, 33, 36, 37, 38 and HKAS-Int 15 had no material effect on the Company's policies.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRSs (continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement.

The adoption of HKAS 17 resulted in a decrease in opening reserves at 1 January 2004 by RMB4,286,000.

	2005	2004
	RMB'000	RMB'000
Decrease in property, plant and equipment	**–**	19,220
Increase in land use rights	**–**	13,906
Decrease in revaluation reserve	**–**	(5,314)
Decrease in accumulated amortisation	**–**	1,028
Decrease in general, administrative and operating expenses	**125**	125
Decrease in basic loss per share (in cents)	**0.02**	0.02

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Company require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis; and

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency"). The financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	:	25-35 years
Machinery	:	5-11 years
Motor vehicles	:	8 years
Office equipment and others	:	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(d) 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

Costs on acquired technical know-how are capitalised and amortised using the straight-line method over the estimated useful lives of between 5 to 10 years, from the date when the technical know-how is available for use.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(g) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(j) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(l) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not 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 not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(m) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts. Revenue is recognised as follows:

(i) Sales of goods are 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.

(n) Government grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Government grants (continued)

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on the straight-line basis over the expected lives of the related assets.

(o) Related party transactions

A party is related to the Company if:

a. directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with the Company;

(ii) has an interest in the Company that gives it significant influence over the Company; or

(iii) has joint control over the Company;

b. the party is a joint venture in which the entity is a venturer;

c. the party is an associate;

d. the party is a member of the key management personnel of the Company;

e. the party is a close member of the family of any individual referred to in (a) or (d);

f. the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

g. the party is a post-employment benefit plan for the benefit of employees of the Company, or of any entity that is a related party of the Company.

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) 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.

(q) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

3. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk and cash flow and fair value interest rate risk.

(i) Credit risk

The Company has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(ii) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest-rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Company to fair value interest-rate risk. At the year end, all borrowings were at fixed rates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of property, plant and equipment and intangible assets

The Company evaluates whether property, plant and equipment and intangible assets have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in Note 2(e). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimated useful lives of property, plant and equipment

The Company's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

5. SEGEMENT 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.

6. TURNOVER, OTHER REVENUES AND OTHER NET INCOME

	2005	2004
	RMB'000	RMB'000
Turnover:		
Sales of medicines in the PRC	**50,914**	46,142
Other revenues:		
Government subsidies (Note 26)	**–**	1,999
Interest income from bank deposits	**9**	15
Sundry income	**1**	1
	10	2,015
Total revenues	**50,924**	48,157
Other net income:		
Gain on disposal of property, plant and equipment	**1,950**	–

6. TURNOVER, OTHER REVENUES AND OTHER NET INCOME (CONTINUED)

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 26 to the financial statements.

7. LOSS FROM OPERATIONS

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

	2005	2004
	RMB'000	RMB'000
		(Restated)
Cost of inventories sold	**34,157**	32,295
Staff costs excluding directors' emoluments		
– Staff salaries and wages	**4,140**	3,451
– Provision for staff and workers' bonus and welfare fund	**757**	608
– Contributions to defined contribution retirement scheme	**947**	831
Write-off of obsolete inventories	**632**	349
Provision for impairment of inventories, net	**(208)**	(63)
Provision for impairment of receivables	**3,868**	9,967
Provision for impairment of advances to staff	**2,129**	2,004
Amortisation of intangible assets	**1,660**	1,657
Amortisation of land use rights	**278**	278
Depreciation of property, plant and equipment	**6,853**	6,659
Operating lease charges in respect of rented premises	**23**	48
Research and development costs	**632**	907
Auditors' remuneration	**424**	424

8. FINANCE COSTS

	2005 **RMB'000**	2004 RMB'000
Interest on bank loans wholly repayable on demand	**1,567**	1,402
Interest on other borrowings	**2**	1
Bank charges	**15**	10
	1,584	1,413

9. INCOME TAX EXPENSE

The income tax expense represents:

	2005 **RMB'000**	2004 RMB'000
PRC enterprise income tax ("EIT")		
– Current tax provision for EIT	**–**	–
– Deferred tax provision for EIT arising from temporary difference of sales recognition	**219**	64
	219	64

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 2004 and 2005.

9. INCOME TAX EXPENSE (CONTINUED)

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

	2005 **RMB'000**	2004 RMB'000 (Restated)
Loss before income tax expense	**(24,018)**	(18,333)
Expected income tax thereon at applicable income tax rate	**(3,603)**	(2,750)
Unrecognised tax losses	**3,603**	2,750
EIT arising from temporary difference of sales recognition (Note 24)	**219**	64
Income tax expense for the year	**219**	64

10. LOSS PER SHARE

(a) The calculation of basic loss per share is based on the Company's loss attributable to shareholders of approximately RMB24,237,000 (2004 (as restated): loss attributable to shareholders of approximately RMB18,397,000) and the weighted average number of 746,654,240 shares (2004: 746,654,240 shares) in issue during the year.

(b) No diluted loss per share is presented as there are no dilutive potential ordinary shares in issue for each of the years ended 31 December 2004 and 2005.

11. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2005 (2004: Nil).

12. EMPLOYEE BENEFITS

(a) Retirement scheme

The Company participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. Each employee covered by these schemes is entitled, after retirement from the Company, to a pension as of their retirement dates. The local government authorities are responsible for the pension liabilities to these retired employees. The Company is required to make monthly contributions to the retirement scheme at a rate of 24% (2004: 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.

13. DIRECTORS' 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:

	2005 **RMB'000**	2004 RMB'000
Fees	**–**	–
Other emoluments:		
Salaries, allowances and other benefits	**214**	108
Pension scheme contributions	**51**	26
Bonuses paid and payable	**–**	–
	265	134

The emoluments of every director for the year ended 31 December 2005 are set out below:

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Pension scheme contributions RMB'000	Bonuses paid and payable RMB'000	Total emoluments RMB'000
2005					
Executive directors:					
Xu Zhe	-	190	46	-	236
Du Li Hua	-	-	-	-	-
Xu Dao Tian	-	11	2	-	13
Liu Xiao Hong (Resigned on 22 August 2005)	-	-	-	-	-
Leng Zhan Ren	-	13	3	-	16
Independent non-executive directors:					
Liu Jin	-	-	-	-	-
Niu Shu Min	-	-	-	-	-
Zhao Zhen Xing	-	-	-	-	-
	-	214	51	-	265

13. DIRECTORS' EMOLUMENTS (CONTINUED)

The emoluments of every director for the year ended 31 December 2004 are set out below:

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Pension scheme contributions RMB'000	Bonuses paid and payable RMB'000	Total emoluments RMB'000
2004					
Executive directors:					
Xu Zhe	–	40	9	–	49
Du Li Hua	–	–	–	–	–
Xu Dao Tian	–	38	10	–	48
Liu Xiao Hong	–	–	–	–	–
Leng Zhan Ren	–	30	7	–	37
Independent non–executive directors:					
Liu Jin	–	–	–	–	–
Niu Shu Min	–	–	–	–	–
Zhao Zhen Xing	–	–	–	–	–
	–	108	26	–	134

The three independent non-executive directors did not receive any emoluments for the year ended 31 December 2005 (2004: Nil). The emoluments of each of the directors were within the band of nil to RMB1,060,000 (equivalent to HK$1,000,000) for the years ended 31 December 2004 and 2005.

None of the directors waived or agreed to waive any emoluments during the year ended 31 December 2005 (2004: Nil). No emoluments were paid by the Company to the directors as an inducement to join or upon joining the Company or as compensation for loss of office during the year ended 31 December 2005 (2004: Nil).

14. FIVE HIGHEST PAID INDIVIDUALS

Details of emoluments of the five highest paid individuals of the Company during the year ended 31 December 2005 (including directors and employees) are as follows:

	2005	2004
Number of director	**1**	1
Number of employees	**4**	4
	5	5

	2005 **RMB'000**	2004 RMB'000
Basic salaries, housing benefits and other benefits	**825**	488
Pension scheme contributions	**139**	58
Bonuses paid and payable	**–**	–
	964	546

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 during the year ended 31 December 2005 (2004: Nil).

15. 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 and 1 January 2005	16,078	223	16,301
Additions	18	–	18
As at 31 December 2005	16,096	223	16,319
Accumulated amortisation and impairment losses:			
As at 1 January 2004	4,408	58	4,466
Charge for the year	1,613	44	1,657
As at 31 December 2004 and 1 January 2005	6,021	102	6,123
Charge for the year	1,615	45	1,660
Impairment losses (Note)	8,460	–	8,460
As at 31 December 2005	16,096	147	16,243
Net book value:			
As at 31 December 2005	**–**	**76**	**76**
As at 31 December 2004	10,057	121	10,178

Note: The technical know-how represents the rights to develop, produce and sell certain medicines. Since the sales of these medicines remained low during the year and there was no sign of significant improvement up to the date of approval of these financial statements, the directors considered that a full provision for impairment of the technical know-how of approximately RMB8,460,000 was required and charged to the income statement during the year.

16. LAND USE RIGHTS

The Company's interests in land use rights represented prepaid operating lease payments and their net book value are analysed as follows:

	2005 **RMB'000**	2004 RMB'000
At cost:		
As at 1 January 2005/ 2004		
As previously reported	**19,220**	19,220
Effect of adopting HKAS 17	**(5,314)**	(5,314)
As restated and as at 31 December 2005/2004	**13,906**	13,906
Accumulated amortisation:		
As at 1 January 2005/ 2004		
As previously reported	**1,741**	1,338
Effect of adopting HKAS 17	**(1,153)**	(1,028)
As restated	**588**	310
Amortisation for the year	**278**	278
As restated and as at 31 December 2005/ 2004	**866**	588
Net book value:		
As at 31 December 2005/2004	**13,040**	13,318

Notes:

(a) As at 31 December 2005, land use rights with net book value of approximately RMB954,000 (2004: RMB11,387,000) were pledged as security for the Company's short-term bank loans.

(b) The land use rights of the Company as at 31 December 2005 are held on medium term leases and situated in the PRC.

17. PROPERTY, PLANT AND EQUIPMENT

	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 (as restated)	88,424	18,638	2,457	7,753	117,272
Additions	325	2,138	77	1,094	3,634
As at 31 December 2004 and 1 January 2005	88,749	20,776	2,534	8,847	120,906
Additions	311	1,183	–	246	1,740
Disposal	(17,679)	–	–	–	(17,679)
As at 31 December 2005	71,381	21,959	2,534	9,093	104,967
Accumulated depreciation and impairment losses:					
As at 1 January 2004, as restated	5,481	3,790	764	1,890	11,925
Charge for the year	2,818	1,953	308	1,580	6,659
As at 31 December 2004 and 1 January 2005	8,299	5,743	1,072	3,470	18,584
Disposal written back	(1,950)	–	–	–	(1,950)
Charge for the year	2,736	2,121	317	1,679	6,853
Impairment losses (Note (b))	4,086	–	–	–	4,086
As at 31 December 2005	13,171	7,864	1,389	5,149	27,573
Net book value:					
As at 31 December 2005	**58,210**	**14,095**	**1,145**	**3,944**	**77,394**
As at 31 December 2004	80,450	15,033	1,462	5,377	102,322

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) The Company's 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 were 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 buildings of approximately RMB1,572,000 as at 31 December 2001 was credited to the revaluation reserve (which is a component of the Company's capital reserve, further details of which are set out in Note 26 to the financial statements).

(b) As at 31 December 2005, the Company's buildings were appraised by an independent Hong Kong professional valuer, RHL Appraisal Limited. These properties were appraised on the basis of depreciated replacement cost and were carried in the balance sheet at fair market value of approximately RMB58,210,000 as at 31 December 2005. Amongst the impairment loss of approximately RMB4,086,000 arising from the revaluation, approximately RMB1,572,000 has been debited to the revaluation reserve and approximately RMB2,514,000 has been charged to the income statement during the year.

(c) As at 31 December 2005, buildings with net book value of approximately RMB16,782,000 (2004: RMB15,698,000) were pledged as security for the Company's short-term bank loans.

18. INVENTORIES

	2005	2004
	RMB'000	RMB'000
Raw materials	**5,466**	3,690
Work-in-progress	**2,004**	1,695
Finished goods	**3,436**	2,138
Total inventories	**10,906**	7,523
Less: Provision for impairment of inventories	**(143)**	(351)
Total inventories, net of provision	**10,763**	7,172

19. ACCOUNTS RECEIVABLE

The credit terms of the Company range from 90 to 120 days. As at 31 December 2005, the ageing analysis of accounts receivable was as follows:

	2005	2004
	RMB'000	RMB'000
0 – 30 days	**18,071**	20,195
31 – 60 days	**2,304**	3,172
61 – 90 days	**2,564**	2,865
91 – 180 days	**7,114**	5,999
181 – 270 days	**5,738**	4,648
271 – 365 days	**3,387**	3,097
Over 365 days	**28,585**	24,961
Total accounts receivable	**67,763**	64,937
Less: Provision for impairment of receivables	**(28,585)**	(24,717)
Total accounts receivable, net of provision	**39,178**	40,220

The carrying amounts of accounts receivable, advances to staff and prepayments and other current assets approximate their fair values.

20. SHORT-TERM BORROWINGS

	2005	2004
	RMB'000	RMB'000
Bank loans (Note 20(a))	**24,500**	24,500
Other borrowings (Note 20(b))	**10,020**	10,020
	34,520	34,520

20. SHORT-TERM BORROWINGS (CONTINUED)

Notes:

(a) The balance comprises short-term bank loans of RMB24,500,000 in aggregate, which bore interest at 6.138% per annum and were secured by the land use rights and buildings of the Company, further details of which are set out in Notes 16 and 17 to the financial statements.

(b) The balance includes 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 relevant 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. As at 31 December 2005 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 appropriate to continue to classify the loan as current liabilities.

The remaining balance represents another loan amounted to RMB20,000 (2004: RMB20,000) from an independent third party which was unsecured, interest bearing at 5.31% per annum and repayable on demand

(c) The carrying amounts of short-term borrowings approximate their fair values.

21. ACCOUNTS PAYABLE

As at 31 December 2005, the ageing analysis of accounts payable was as follows:

	2005 **RMB'000**	2004 RMB'000
0 to 1 month	**2,199**	4,753
1 to 6 months	**1,237**	633
6 to 12 months	**1,261**	163
1 to 2 years	**241**	899
Over 2 years	**45**	444
	4,983	6,892

The carrying amounts of accounts payable approximate their fair values.

22. ACCRUALS AND OTHER PAYABLES

	2005	2004
	RMB'000	RMB'000
Provision for staff welfare	**704**	615
Payable for PRC statutory contribution	**3,349**	2,195
Payable for acquisition of fixed assets	**2,573**	2,040
Payable to suppliers	**1,884**	1,286
Other taxes payable	**7,578**	6,848
Other accruals	**732**	962
	16,820	13,946

23. INCOME TAX PAYABLE

As at 31 December 2005, the income tax payable comprises:

	2005	2004
	RMB'000	RMB'000
Current tax:		
EIT payable	**54**	54

24. DEFERRED TAX LIABILITIES

	2005	2004
	RMB'000	RMB'000
As at 1 January 2005/2004	**2,598**	2,534
Charged to the income statement (Note 9)	**219**	64
As at 31 December 2005/2004	**2,817**	2,598

The deferred tax liability represents EIT arising from temporary difference of sales recognition.

25. SHARE CAPITAL

	2005 **RMB'000**	2004 RMB'000
Authorised, issued and fully paid:		
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.

26. RESERVES

	Capital reserve			Statutory public welfare fund	Statutory revenue reserve	(Accumulated losses)/ retained earnings	Total reserves
	Share premium	Revaluation reserve	Others				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2004							
– As previously reported	19,027	6,886	9,327	3,928	5,757	27,511	72,436
– Effect of adopting HKAS 17	–	(5,314)	–	–	–	1,028	(4,286)
– As restated	19,027	1,572	9,327	3,928	5,757	28,539	68,150
Loss for the year							
– As previously reported	–	–	–	–	–	(18,522)	(18,522)
– Effect of adopting HKAS 17	–	–	–	–	–	125	125
– As restated	–	–	–	–	–	(18,397)	(18,397)
Transfer to capital reserve in respect of government subsidies (Note 6)	–	–	1,999	–	–	(1,999)	–
	–	–	1,999	–	–	(20,396)	(18,397)
As at 31 December 2004 and 1 January 2005 (as restated)	19,027	1,572	11,326	3,928	5,757	8,143	49,753
Loss for the year	–	–	–	–	–	(24,237)	(24,237)
Reversal of revaluation on buildings	–	(1,572)	–	–	–	–	(1,572)
As at 31 December 2005	**19,027**	**–**	**11,326**	**3,928**	**5,757**	**(16,094)**	**23,944**

26. RESERVES (CONTINUED)

Notes:

(a) According to the relevant regulations in the PRC and the 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 appropriations to the statutory revenue reserve and statutory public welfare fund.

(c) The statutory revenue reserve as approved by the shareholders may be converted into share capital when the level of the reserve reaches 25% of the registered share capital provided that the balance of the statutory revenue reserve should not fall below 25% of the registered share capital after the conversion. As at 31 December 2005, 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.

27. RECONCILIATION OF LOSS BEFORE INCOME TAX EXPENSE TO NET CASH (USED IN)/ GENERATED FROM OPERATING ACTIVITIES

	2005	2004
	RMB'000	RMB'000
		(Restated)
Loss before income tax expense	**(24,018)**	(18,333)
Adjustments for:		
Impairment losses on buildings	**2,514**	–
Impairment losses on intangible assets	**8,460**	–
Amortisation of intangible assets	**1,660**	1,657
Depreciation of property, plant and equipment	**6,853**	6,659
Amortisation of land use rights	**278**	278
Gain on disposal of property, plant and equipment	**(1,950)**	–
Provision for impairment of receivables	**3,868**	9,967
Provision for impairment of advances to staff	**2,129**	2,004
Provision for impairment of inventories, net	**(208)**	(63)
Interest expenses	**1,569**	1,403
Interest income	**(9)**	(15)
Operating profit before changes in working capital	**1,146**	3,557
Changes in working capital:		
Inventories	**(3,383)**	2,707
Accounts receivable	**(2,826)**	(1,427)
Advances to staff	**1,490**	(1,634)
Prepayments and other current assets	**69**	734
Accounts payable	**(1,909)**	2,210
Advance payments from customers	**(602)**	930
Accruals and other payables	**2,341**	548
Net cash (used in)/ generated from operations	**(3,674)**	7,625
Interest paid	**(1,569)**	(1,403)
Net cash (used in)/ generated from operating activities	**(5,243)**	6,222

28. RELATED PARTY TRANSACTIONS

(a) Major balances with related parties

Amount due from a related party:

Related party	**Highest balance outstanding during the year** RMB'000	**2005** **RMB'000**	2004 RMB'000
Jilin Far East Pharmaceutical Holdings Company Limited ("FE Holdings")	4,162	–	4,162

The amount due is unsecured, interest-free and repayable on demand.

On 16 August 2005, FE Holdings entered into an agreement with Mr. Liu Yang, a PRC citizen who is independent from and not acting in concert with or connected with the directors, chief executive, supervisors, management shareholders, substantial shareholder (except being a director of FE Holdings) and any other existing shareholders of the Company or their respective associates, pursuant to which, FE Holdings agreed to transfer 194,194,580 domestic shares of the Company, representing its entire interest in the Company's share capital, to Mr. Liu Yang at a consideration of RMB19,419,458 (the "Share Transfer"). Prior to the Share Transfer, FE Holdings was the largest shareholder of the Company. As a result of the Share Transfer, FE Holdings became an independent third party and the amount due from FE Holdings has been reclassified and included in "Prepayments and other current assets".

28. RELATED PARTY TRANSACTIONS (CONTINUED)

(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**	**2005** **RMB'000**	2004 RMB'000
Jilin You Lian Wei Shi Industrial Company Limited, a company owned by a director, Xu Dao Tian	Purchases	**380**	222

(c) Compensation of key management personnel

	2005 **RMB'000**	2004 RMB'000
Short-term employee benefits	**265**	134

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:

	Year ended 31 December				
	2005	2004	2003	2002	2001
Results	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
(Loss)/Profit attributable to shareholders	**(24,237)**	(18,397)	236	12,853	22,030

	As at 31 December				
	2005	2004	2003	2002	2001
Assets and liabilities	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**163,097**	188,324	206,775	213,971	185,573
Total liabilities	**(64,488)**	(63,906)	(59,674)	(67,106)	(91,288)
Shareholders' equity	**98,609**	124,418	147,101	146,865	94,285