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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)

CONNECTED TRANSACTIONS

The Directors wish to announce that the Company had entered into the following connected transactions:

- (i) on 22 March 2002, the Company entered into a verbal agreement with FE Holdings, pursuant to which the Company agreed to acquire and FE Holdings agreed to sell the Property at a cash consideration of approximately RMB7.4 million (approximately HK\$6.9 million). The Company continued to construct the Property as a GMP compliant plant. On 10 January 2003, the Company entered into a memorandum with FE Holdings to record the details of such verbal agreement;
- (ii) on 1 March 2002, the Company made an advance of approximately RMB5.3 million (approximately HK\$5.0 million) to FE Holdings for the purpose of supporting FE Holdings' exploration of new markets. The First Advance was unsecured, interest-free and had no fixed terms of repayment. The Directors confirmed that FE Holdings had fully repaid the First Advance without interest to the Company on 31 December 2002; and
- (iii) on 1 September 2002, the Company made a further advance of approximately RMB7.5 million (approximately HK\$7.0 million) to FE Holdings for the purpose of supporting FE Holdings' exploration of new markets. The Second Advance was unsecured, interest-free and had no fixed terms of repayment. The Directors confirmed that FE Holdings had fully repaid the Second Advance without interest to the Company on 31 December 2002.

As FE Holdings is a substantial shareholder of the Company, the acquisition of the Property from FE Holdings and the making of the Two Advances to FE Holdings by the Company constitute connected transactions for the Company in accordance with the GEM Listing Rules. The acquisition of the Property is subject to the requirements of reporting and announcement under Rule 20.24 of the GEM Listing Rules as the terms of such connected transaction were arrived at after arm's length negotiations between both parties and the consideration for such connected transaction is less than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company. The making of the Two Advances is subject to the requirements of reporting, announcement and independent shareholders' approval under Rule 20.50 of the GEM Listing Rules as the Two Advances were not made on normal commercial terms and the making of the Two Advances was not part of the ordinary and usual course of business of the Company.

Since the above connected transactions had been conducted by the Company, the failure by the Company to report and announce the details of the acquisition of the Property and to report, announce and seek independent shareholders' approval on the making of the Two Advances have constituted a breach of Rules 20.50 and 20.24 respectively of the GEM Listing Rules. **The Stock Exchange has expressed grave concern on this matter and reserves its rights to take any action against the Company and/or each of its directors, if appropriate, under the GEM Listing Rules. The Stock Exchange is looking into the matter.**

In addition, on 27 August 2002, the Company entered into the Agency Agreement with Hailaer, pursuant to which the Company agreed to appoint Hailaer as its agent for the purpose of procuring 羚羊角 (Antelope's Horn) from independent suppliers. The consideration for entering into the Agency Agreement was nil as the Company was not required to pay any fees or commissions to Hailaer for the services Hailaer provided under the Agency Agreement. For the period from August 2002 to September 2002, the Company provided funds of approximately RMB2.4 million (approximately HK\$2.2 million) in aggregate to Hailaer for the procurement of Antelope's Horn. The Directors confirmed that Hailaer had fully returned such funds to the Company in cash on 31 December 2002 as the price of Antelope's Horn surged since September 2002.

As Hailaer is owned as to approximately 66.8% by FE Holdings, a substantial shareholder of the Company and as to approximately 31.3% by Xu's Family, Hailaer is a connected person of the Company under the GEM Listing Rules. Accordingly, the entering into of the Agency

Agreement constituted a connected transaction for the Company under the GEM Listing Rules. However, as the transaction contemplated under the Agency Agreement was made on normal commercial terms and the value (i.e. nil) of the transaction falls within the de minimis value as stipulated in Rule 20.23(2) of the GEM Listing Rules, such transaction is exempted from all the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

CONNECTED TRANSACTIONS

The acquisition of the Property

Background

On 22 March 2002, a verbal agreement, which was initiated by the Company, was entered into between the Company and FE Holdings, pursuant to which the Company agreed to acquire and FE Holdings agreed to sell the Property at a cash consideration of approximately RMB7.4 million (approximately HK\$6.9 million). The Board (including the independent non-executive Directors) had approved the verbal agreement before it was entered into. On 10 January 2003, the Company entered into a memorandum with FE Holdings to record the details of such verbal agreement. Major terms of the memorandum are set out below:-

Date : 10 January 2003

Parties

Purchaser : The Company

Vendor : FE Holdings

Conditions precedent : Nil

The Property acquired : A plant under development situated at No. 2, Hi-Tech Development Zone, Jilin City, Jilin Province, the PRC with a total gross floor area of approximately 11,000 square meters.

Background of the Property : The Property, which was owned by FE Holdings before the

and the Land on which the Property is erected

entering into of the verbal agreement on 22 March 2002, was initially constructed for the production of medicines. As at 22 March 2002 when the verbal agreement was entered into between FE Holdings and the Company, the construction work on the Property was still in progress and its basic structure was had been completed. Before the entering into of the verbal agreement on 22 March 2002, FE Holdings was responsible for the construction costs and expenses. After the entering into of the verbal agreement on 22 March 2002, the Company was responsible for the construction costs and expenses. The Company continued to construct the Property as a GMP compliant plant after the entering into of the verbal agreement on 22 March 2002. The new GMP compliant plant had been established in October 2002. The Company obtained the 房屋所有權證 (Building Ownership Certificates) of the Property on 25 December 2002 and the GMP certificate was issued by the SDA for such GMP compliant plant on 9 December 2002.

With a view to constructing a GMP compliant plant, the Company and Guangming Village entered into an agreement on 22 March 2002, pursuant to which the Company agreed to acquire and Guangming Village agreed to sell the Land on which the Property is erected at a consideration of approximately RMB11.5 million (approximately HK\$10.7 million). The land use rights of the Land have been granted to the Company for a term of 50 years up to 2053. The Company is to provide the Stock Exchange with information of calculation of assets test as stipulated in Rule 19.07 of the GEM Listing Rules. The Company will make further announcement pertaining to the acquisition of the Land, if necessary.

Consideration

: RMB7,354,485 (approximately HK\$6.9 million), paid by the Company in cash on 28 September 2002, determined after arm's length negotiations between the Company and FE Holdings and with reference to the construction fees

incurred by FE Holdings. Taking into account the valuation of the Property of approximately RMB7.9 million (approximately HK\$7.4 million) as at 28 February 2002 conducted on 20 March 2002 by 吉林市開元資產評估事務所 (Jilin City Kaiyuan Assets Valuation Office), an independent property valuer appointed by the Company, the Directors (including the independent non-executive Directors) considered that the acquisition of the Property was made on normal commercial terms and the terms of the acquisition were fair and reasonable and were in the interests of the Company and its shareholders as a whole.

Reason for the acquisition of the Property

As mentioned in the paragraph headed “Establishment of a new GMP compliant plant” under the section headed “Business objectives” of the Prospectus, in order to expand and enhance its production capacity and to further strengthen its competitive advantages, the Company planned to establish a new GMP compliant plant. The Directors are of the view that the acquisition of the Property could shorten the construction time of the GMP compliant plant. As such, the acquisition was in line with the Company’s business strategy stated in the Prospectus.

The making of the Advances

Background

On 1 March 2002, the Company made the First Advance of approximately RMB5.3 million (approximately HK\$5.0 million) to FE Holdings. On 1 September 2002, the Company made the Second Advance of approximately RMB7.5 million (approximately HK\$7.0 million) to FE Holdings. The making of the Two Advances were both initiated by FE Holdings. The Directors confirmed that the Company made the Two Advances by its internal resources and not from the net proceeds which were obtained from the Company’s listing on GEM on 28 February 2002. The Two Advances were unsecured, interest-free and had no fixed terms of repayment. However, the Directors confirmed that FE Holdings had fully repaid the Two Advances without interest to the Company on 31 December 2002.

FE Holdings used the Two Advances for its advertising campaign, recruitment and training of sales and marketing personnel, holding exhibition and establishment of sales offices to explore new markets as well as to strengthen its sales and marketing capability.

Pursuant to a board meeting held on 15 March 2002, two executive Directors were authorized to make, for and on behalf of the Company, any advances but limited to RMB13 million (approximately HK\$12.1 million) in aggregate a year to FE Holdings. As such, further approval from the Board for the making of the Two Advances of approximately RMB12.8 million (or approximately HK\$12.0 million) in aggregate by the Company to FE Holdings during the period from March 2002 to September 2002 was not required.

Reason for the making of the Two Advances

With an aim to solidifying the Company's position as a leading Chinese medicine producer by enhancing its market share in the PRC and public recognition of the brand name "Northeast Tiger", the Company has expanded its own sales and marketing team to sell its products. For new markets, as it is not cost effective for the Company to establish its own sales and marketing team, the Directors intend, through the Company's customers who are principally engaged in the distribution of medicines, to sell its products. As such, the Directors believe that the making of the Two Advances by the Company for the purposes of assisting FE Holdings, which acts as a distributor and is a customer of the Company, to explore new markets as well as to strengthen its sales and marketing capability would be indirectly beneficial to the Company to a certain extent because it would increase the Company's sales to FE Holdings and enhance the Company's product exposure in new markets through FE Holdings' enlarged sales network and minimise the resources of the Company required in exploring a new market by itself. As such, the Directors (including the independent non-executive Directors) consider that the making of the Two Advances is in the interests of the Company and its shareholders as a whole.

THE REQUIREMENTS OF THE GEM LISTING RULES

As FE Holdings is a substantial shareholder of the Company, holding approximately 26.01% of the existing registered capital of the Company, the acquisition of the Property from FE Holdings and the making of the Two Advances to FE Holdings by the Company constitute connected transactions for the Company in accordance with the GEM Listing Rules. The acquisition of the Property is subject to the requirements of reporting and announcement under Rule 20.24 of the GEM Listing Rules as the terms of such connected transaction were

arrived at after arm's length negotiations between both parties and the consideration for such connected transaction is less than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company. The making of the Two Advances is subject to the requirements of reporting, announcement and independent shareholders' approval under Rule 20.50 of the GEM Listing Rules as the Two Advances were not made on normal commercial terms and the making of the Two Advances was not part of the ordinary and usual course of business of the Company.

Since the above connected transactions had been conducted by the Company, the failure by the Company to report and announce the details of the acquisition of the Property and to report, announce and seek independent shareholders' approval on the making of the Two Advances have constituted a breach of Rules 20.50 and 20.24 respectively of the GEM Listing Rules. **The Stock Exchange has expressed grave concern on this matter and reserves its rights to take any action against the Company and/or each of its directors, if appropriate, under the GEM Listing Rules. The Stock Exchange is looking into the matter.**

THE REASON FOR THE COMPANY'S FAILURE TO COMPLY WITH THE GEM LISTING RULES

The Company's failure to report and announce the acquisition of the Property and to report, announce and seek independent shareholders' approval on the making of the Two Advances was due to the Directors' inadvertent oversight resulting from their active involvement in the Company's business development. The Directors admit that they have failed to comply with the relevant provisions of the GEM Listing Rules.

STEPS TAKEN TO PREVENT FUTURE NON-COMPLIANCE

The Company's failure to report and announce the acquisition of the Property and to report, announce and seek independent shareholders' approval on the making of the Two Advances was found out during the pre-annual audit revision conducted by PricewaterhouseCooper, the auditors to the Company, in December 2002. Having found that the Company failed to comply with the GEM Listing Rules, the Company reported the same to the Stock Exchange through its retained sponsor. In order to prevent non-compliance in the future, the Company has set up a team to assist the Directors to oversee compliance with the GEM Listing Rules. The team comprises Ms Du Li Hua, who is a Director and the compliance officer of the Company, Mr Liu Xiao Hong and Mr Leng Zhan Ren, who are Directors, Mr Lam Kai Yeung,

who is the company secretary and qualified accountant of the Company, and Mr Chen Wei Dong, who is the manager of the stock department of the Company. The primary duties of the team are:

- to monitor and identify all the proposed transactions of the Company to which the GEM Listing Rules may be applicable to ensure that the Company is in compliance with the GEM Listing Rules when it intends to conduct the proposed transactions;
- to seek the advice of the retained sponsor and the legal adviser to the Company (if any) when it intends to enter into any transactions to which the GEM Listing Rules may be applicable;
- to provide draft announcements, circulars, annual reports and accounts, half-yearly reports and quarterly reports prior to their publications to the Company's retained sponsor as soon as practicable to ensure that the Company will fully comply with the GEM Listing Rules; and
- to provide management accounts, including but not limited to income statement, balance sheet and cash flow statement, to the Company's retained sponsor for its review in order to assist the Company in determining whether any disclosure is necessary under the GEM Listing Rules.

BACKGROUND OF THE COMPANY AND FE HOLDINGS

The Company

The Company is principally engaged in the manufacture and sale of Chinese medicine in the PRC as well as conducting pharmaceutical research and development.

FE Holdings

FE Holdings is a joint stock limited company incorporated in the PRC on 6 August 1992 and is principally engaged in the wholesale of Chinese and Western medicine in the PRC. The shareholders of FE Holdings are as follows:

Shareholders	<i>Notes</i>	Shareholding (%)
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吉林市國有資產管理局 (Jilin Administration of State-owned Assets)	(a)	28.82
海拉爾市一代天驕藥業有限公司 (Hailaer City Yidaitianqiao Pharmaceutical Company Limited) (“ Hailaer ”)	(b)	9.86
吉林市遠東保健食品有限公司 (Jilin Far East Healthcare Food Company Limited)	(c)	8.57
吉林市鐵達環保節能產品經銷公司 (Jilin Tieda Environmental Conservation Products Distribution Company)	(d)	0.14
Natural persons	(e)	<u>52.61</u>
Total		<u>100.00</u>

Notes:

- (a) Jilin Administration of State-owned Assets is a PRC government authority.
- (b) Hailaer is owned as to approximately 66.83% by FE Holdings, a substantial shareholder of the Company, as to approximately 26.50% by Xu Dao Tian, a director of the Company, as to approximately 4.83% by Xu Zhe, a director of the Company, as to approximately 0.50% by Liu Xiao Hong, a director of the Company, as to approximately 0.42% by Liang Yu Sheng, who is independent from and not connected with any of the promoters, directors, chief executive, supervisors, substantial shareholder or management shareholders of the Company or their respective associates, as to approximately 0.42% by Liu Hui Zhong, who is independent from and not connected with the promoters, directors, chief executive, supervisors, substantial shareholder or management shareholders of the Company or their respective associates, as to approximately 0.25% by Zhang Ya Bin, a supervisor of the Company and as to the balance of approximately 0.25% by Leng Zhan Ren, a director of the Company.
- (c) Jilin Far East Healthcare Food Company Limited is owned as to approximately 85.55% by Xu Yan, as to approximately 12.35% by Yao Li Ming, as to approximately 1.23% by Du Xiao Ping, as to approximately 0.62% by Wang Xue Hua and as to the balance of approximately 0.25% by Jiang Ming Hong, who are all independent from and not connected with the promoters, directors, chief executive, supervisors, substantial shareholder or management shareholders of the Company or their respective associates.
- (d) Jilin Tieda Environmental Conservation Products Distribution Company is owned as to approximately 70.00% by Zhang Shun and as to the balance of approximately 30.00% by Guo Feng, both are independent from and not connected with the promoters, directors, chief executive, supervisors, substantial shareholder or management shareholders of the Company or their respective associates.

(e) 2,215 natural persons in total, all of whom are independent from and not connected with any of the promoters, directors, supervisors, chief executive, substantial shareholders or management shareholders of the Company or any of their respective associates. Among these 2,215 natural person shareholders, Feng Mo Jie is the largest shareholder who holds approximately 2.4% of the total registered capital of FE Holdings. None of the 2,215 natural persons involves in the management of the FE Holdings.

THE AGENCY AGREEMENT

On 27 August 2002, the Company entered into the Agency Agreement with Hailaer, pursuant to which the Company agreed to appoint Hailaer as its agent for the purpose of procuring 羚羊角 (Antelope's Horn) from independent suppliers. The consideration for entering into the Agency Agreement was nil as the Company was not required to pay any fees or commissions to Hailaer for the services Hailaer provided under the Agency Agreement. For the period from August 2002 to September 2002, the Company provided funds of approximately RMB2.4 million (approximately HK\$2.2 million) in aggregate to Hailaer for the procurement of Antelope's Horn. The Directors confirmed that Hailaer had fully returned such funds to the Company in cash on 31 December 2002 as the price of Antelope's Horn surged since September 2002.

As Hailaer is owned as to approximately 66.8% by FE Holdings, a substantial shareholder of the Company and as to approximately 31.3% by Xu's Family, Hailaer is a connected person of the Company under the GEM Listing Rules. Accordingly, the entering into of the Agency Agreement constituted a connected transaction for the Company under the GEM Listing Rules. However, as the transaction contemplated under the Agency Agreement was made on normal commercial terms and the value (i.e. nil) of the transaction falls within the de minimis value as stipulated in Rule 20.23(2) of the GEM Listing Rules, such transaction was exempted from all the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings as set out below unless the context requires otherwise:

“Agency Agreement” an agency agreement dated 27 August 2002 entered into between the Company and Hailaer in relation to the appointment of

Hailaer as the Company's agent for the purpose of procuring 羚羊角 (Antelope's Horn) from independent suppliers

“Board”	the board of the Directors
“Company”	Northeast Tiger Pharmaceutical Co., Ltd., a joint stock limited company incorporated in the PRC on 30 June 2000 and whose H shares are listed on GEM
“Directors”	the directors of the Company
“FE Group”	FE Holdings and its subsidiaries
“FE Holdings”	吉林遠東藥業集團股份有限公司 (Jilin Far East Pharmaceutical Holdings Company Limited), a joint stock limited company incorporated in the PRC on 6 August 1992, a substantial shareholder of the Company holding approximately 26.01% of the existing registered capital of the Company
“First Advance”	an advance of approximately RMB5.3 million (approximately HK\$5.0 million) made by the Company to FE Holdings on 1 March 2002
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GMP”	Good Manufacturing Practice, being the standards and regulations issued by the SDA in respect of certain quality standards to be adopted in the pharmaceutical industry in the PRC on pharmaceutical production
“Guangming Village”	吉林高新區光明村 (Jilin Hi-Tech Zone Guangming Village), which is independent from and not connected with any of the promoters, directors, supervisors, chief executive, substantial shareholders (as defined in the GEM Listing Rules) or initial management shareholders of the Company or its subsidiaries or any of their respective associates

“Land”	the land on which the Property is erected
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“Property”	a property under development located at No. 2, Hi-Tech Development Zone, Jilin City, Jilin Province, the PRC
“Prospectus”	the prospectus of the Company dated 20 February 2002
“SDA”	國家藥品監督管理局 (the State Drug Administration of the PRC)
“Second Advance”	an advance of approximately RMB7.5 million (approximately HK\$7.0 million) made by the Company to FE Holdings on 1 September 2002
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Two Advances”	the First Advance and the Second Advance
“Xu Dao Tian”	徐道田, the father of Xu Zhe, is a Director, a promoter and a substantial shareholder of the Company
“Xu Zhe”	徐哲, the son of Xu Dao Tian, is a Director, a promoter and a substantial shareholder of the Company
“Xu’s Family”	Xu Dao Tian and Xu Zhe
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

Unless otherwise specified in this announcement, amounts denominated in RMB have been translated, for the purpose of illustration only, into HK\$ at the rate of HK\$1.00 = RMB 1.07.

By Order of the Board
Northeast Tiger Pharmaceutical Co., Ltd.
Liu Xiao Hong
Director

Jilin, the PRC
13 March 2003

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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