



ANNUAL REPORT 2002



EVERPRIDE BIOPHARMACEUTICAL COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

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The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements 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 annual 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 annual report.

This annual report, for which the directors of Everpride Biopharmaceutical Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange for the purpose of giving information with regard to Everpride Biopharmaceutical Company Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: — (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



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Corporate Information

DIRECTORS

Executive Directors

Chung Chi Mang (*Chairman*)
Zhang Xue Min
Xie Xiaodong
Zhong Zhi Gang
Zhang Yuanfu

Independent Non-Executive Directors

Kwok Wai Fung (*Chairman*)
Zhang Zuxun (resigned on 8 November 2002)
Ho Leong Leong, Lawrence
(appointed on 8 November 2002)

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Zhang Yuanfu, AHKSA, FCCA

ASSISTANT COMPANY SECRETARY

Codan Trust Company (Cayman) Limited

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 268IGT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 3105, Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

AUDITORS

Charles Chan, IP & Fung CPA Ltd
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

COMPLIANCE OFFICER

Zhang Xue Min

AUTHORIZED REPRESENTATIVES

Zhang Xue Min
Zhang Yuanfu

SPONSOR

Asia Investment Capital Ltd
Units 1402-3, 14/F
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

SOLICITORS

Stephenson Harwood & Lo
18th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 268IGT
George Town
Grand Cayman
British West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

in Hong Kong
Standard Chartered Bank

in PRC
Hua Xia Bank, Taiyuan Branch, PRC

Chairman's Statement



Mr. Chung Chi Mang
Chairman

For and on behalf of the Board of Directors (the "Board") of Everpride Biopharmaceutical Company Limited (the "Company") together with its subsidiary (the "Group"), I am pleased to present to all shareholders the annual report for the year ended 31 December, 2002.

BUSINESS REVIEW

The year of 2002 is critical for the Group. The commencement of contribution from the sales of "Puli Capsule" to the Group's turnover in 2002 is the milestone for the development history of the Group.

During the year, the Group successfully introduced this new medicine into the Mainland China market and has broken away from the adverse effects arising from all the revenue being from the single product of "Plasmin Capsule".

During the year under review, the Group recorded an audited consolidated turnover of approximately RMB73,062,000 (2001 — RMB107,299,000), which represented a decrease of approximately 32 per cent. as compared with that of 2001. The Group's audited consolidated profit attributable to shareholders for the year was approximately RMB2,403,000 (2001 — RMB17,051,000), which represented a substantial decrease of approximately 86 per cent. as compared with that of 2001. During the year, the Group continued to face increasingly fierce competition in the pharmaceutical industry in Mainland China due to the following reasons: (i) the strict control over the medicine advertising campaigns in the mass media in Mainland China implemented by the State Drug Administration of the People's Republic of China ("SDA") and the State Administration of Industry and Commerce of the People's Republic of China from 2001 imposed additional restrictions on promotional channels available, which adversely affected the Group's sales through the over-the-counter (the "OTC") market which has been the major market for the Group in Mainland China; (ii) the newly-introduced "Puli Capsule" was classified as a prescription medicine and its sales were limited to hospitals which was a relatively weak market for the Group; (iii) the continuous global economic downturn further adversely affected the sales and distribution in overseas markets.

Chairman's Statement

SALES AND MARKETING

During the year under review, the Group started to export earthworm powder, the major component of "Plasmin Capsule", to a pharmaceutical manufacturing company in Malaysia for its local production and sales, the sales of which amounted to RMB348,000 (2001 — nil). The sales of earthworm powder have created another source of revenue for the Group. With the anticipated expansion of overseas earthworm powder markets in the future, the Group will lay more emphasis on the promotion of earthworm powder in order to enhance its sales.

During the year under review, the Group also reinforced marketing efforts in strengthening the sales and distribution in overseas markets, such as United States, Germany and Russia. The turnover from these markets amounted to approximately RMB826,000 (2001 — Nil), representing approximately 1 per cent. of the audited consolidated turnover of the Group over the year.

Due to the successful introduction of "Puli Capsule" into the Mainland China market in August 2002, the downward trend in turnover was significantly improved and the new product started to make contributions to the Group. The sales of "Puli Capsule" were approximately RMB20,748,000, representing 28 per cent. of the whole turnover of the Group in 2002. During the year under review, despite facing strict competition and adverse market conditions in the pharmaceutical industry in Mainland China, the Group still recorded a turnover from the sales of "Plasmin Capsule" and its major component — earthworm powder, of approximately RMB47,814,000 in 2002.



Chairman's Statement



In response to the regulatory changes introduced by the SDA as mentioned earlier, the Group will, on one hand, continue to focus more on developing the prescription medicine market through doctors in hospitals. On the other hand, the Group had made an application to the SDA for changing the new medicine of "Puli Capsule" from a prescription medicine to an OTC medicine in order to maintain its market share in the OTC medicine market which was the major market for the Group in previous years. The approval for such change was obtained from the SDA on 24 January, 2003. The Group will put more efforts in mass media advertising to promote "Puli Capsule" as in the previous years.

The Directors expect that the above-mentioned measures will improve the market share of the Group's products and add more contributions to the shareholders' return.

RESEARCH AND DEVELOPMENT AND THE STAPHYLOKINESE PROJECT

During the year under review, the Group continued to engage Fujian Normal University Everpride Biopharmaceutical Research and Development Centre for its research work, especially the Staphylokinese Project. Staphylokinese is a genetically-engineered medicine, which is the third generation of thrombotic medicine. The clinical application sample and its other related materials were submitted to the SDA in January 2002 for clinical trial approval. Up to the date of this report, such approval has not been obtained and the application is still in progress. Once the clinical trials are completed and approved, the Group will make an application for a Certificate of New Medicine in respect of Staphylokinese. Such delay was due to the requests for additional information by the SDA.

Chairman's Statement

Application for Good Manufacturing Practices ("GMP") certificate for the Group's production complex

The construction work of the main production complex in Taigu County, Shanxi Province has been completed. Trial production commenced in June 2002 and commercial production began in October 2002. The application for the GMP certification for the production complex was approved by the SDA on 28 February, 2003 (certificate numbers: E2309-2310). The GMP certification was delayed mainly because additional information had been requested by the SDA.

OUTLOOK

The Directors anticipate that fierce competition in the pharmaceutical industry in Mainland China will continue to affect adversely the future earnings and prospects of the Group.

Looking ahead, despite that the Group continues to face keen competition with the competitors in Mainland China, the Directors are confident that the turnover and operating results will be improved if "Puli Capsule" as a newly-introduced OTC medicine obtains satisfactory acceptance in the market in the foreseeable future.

The Group will continue to search for pharmaceutical manufacturers domestically and abroad to promote sales of the main component of "Plasmin Capsule" — earthworm powder, and the Directors believe that it will further enhance the income base of the Group.

Going forward, the Board will make every effort to improve the operation results of the Group and continue to look for other pharmaceutical manufacturers for possible cooperation, such as merger and acquisition, so as to strengthen the profitability and minimize the performance risk of the Group.

APPRECIATION

On behalf of the Board, I would like to extend my appreciation to shareholders of the Company for their continued support and to our staff for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the Group's customers, suppliers, lawyers, auditors and sponsors for their trust and support to the Group.

Chung Chi Mang
Chairman

Hong Kong, 26 March, 2003

Management Discussions and Analysis

BUSINESS REVIEW

The Group is principally engaged in the production and sales of the medicines known as “Plasmin Capsule” and “Puli Capsule” in Mainland China.

As at 30 June, 2002, “Plasmin Capsule” remained the only product for the whole Group. Therefore, all revenue of the Group relied solely on the market acceptance of this product for the first half year of 2002. On 23 July, 2002, Shanxi Everpride Pharmaceutical Co., Ltd. (“Everpride Pharmaceutical”) obtained the Certificate of New Medicine (《新藥證書》(國藥證字H20020209)) and its related production approval (《新藥證書及生產批件》(國藥準字H20020306)) for “Puli Capsule” issued by the SDA. “Puli Capsule” is classified as a State Class 4 Protected Product of Chemical Medicine (國家四級化學藥保護品種) and therefore entitled to an administrative protection period of six years commencing from 23 July, 2002 and expiring on 22 July, 2008. During such administrative protection period, the prescription and production technologies used by the Group in producing “Puli Capsule” are protected and no other manufacturers in Mainland China may produce or imitate this product in Mainland China. “Puli Capsule” has the principal effect of treating osteoarthritis (骨關節炎). “Puli Capsule” has been produced in the Group’s own factory, the construction of which has been completed and which has obtained the GMP certificate.

The year of 2002 is critical for the Group. The commencement of contribution from the sales of “Puli Capsule” to the Group’s turnover in 2002 is the milestone for the development history of the Group. During the year, the Group successfully introduced this new medicine into the Mainland China market and has broken away from the adverse effects arising from all the revenue being from the single product of “Plasmin Capsule”.

During the year under review, the Group recorded an audited consolidated turnover of approximately RMB73,062,000 (2001 — RMB107,299,000), which represented a decrease of approximately 32 per cent. as compared with that of 2001. The Group’s audited consolidated profit attributable to shareholders for the year was approximately RMB2,403,000 (2001 — RMB17,051,000), which represented a substantial decrease of approximately 86 per cent. as compared with that of 2001. During the year, the Group continued to face increasingly fierce competition in the pharmaceutical industry in Mainland China due to the following reasons: (i) the strict control over the medicine advertising campaigns in the mass media in Mainland China implemented by the SDA and the State Administration of Industry and Commerce of the People’s Republic of China from 2001 imposed additional restrictions on promotional channels available, which adversely affected the Group’s sales through the over-the-counter (the “OTC”) market which has been the major market for the Group in Mainland China; (ii) the newly-introduced “Puli Capsule” was classified as a prescription medicine and its sales were limited to hospitals which was a relatively weak market for the Group; (iii) the continuous global economic downturn further adversely affected the sales and distribution in overseas markets.

Management Discussions and Analysis

Sales and Marketing

During the year under review, the Group started to export earthworm powder, the major component of “Plasmin Capsule”, to a pharmaceutical manufacturing company in Malaysia for its local production and sales, the sales of which amounted to RMB348,000 (2001 — nil). The sales of earthworm powder have created another source of revenue for the Group. With the anticipated expansion of overseas earthworm powder markets in the future, the Group will lay more emphasis on the promotion of earthworm powder in order to enhance its sales.

During the year under review, the Group also reinforced marketing efforts in strengthening the sales and distribution in overseas markets, such as United States, Germany and Russia. The turnover from these markets amounted to approximately RMB826,000 (2001 — Nil), representing approximately 1 per cent. of the audited consolidated turnover of the Group over the year.

Due to the successful introduction of “Puli Capsule” into the Mainland China market in August 2002, the downward trend in turnover was significantly improved and the new product started to make contributions to the Group. The sales of “Puli Capsule” were approximately RMB20,748,000, representing 28 per cent. of the whole turnover of the Group in 2002. During the year under review, despite facing strict competition and adverse market conditions in the pharmaceutical industry in Mainland China, the Group still recorded a turnover from the sales of “Plasmin Capsule” and its major component—earthworm powder, of approximately RMB47,814,000 in 2002.

In response to the regulatory changes introduced by the SDA as mentioned earlier, the Group will, on one hand, continue to focus more on developing the prescription medicine market through doctors in hospitals. On the other hand, the Group had made an application to the SDA for changing the new medicine of “Puli Capsule” from a prescription medicine to an OTC medicine in order to maintain its market share in the OTC medicine market which was the major market for the Group in previous years. The approval for such change was obtained from the SDA on 24 January, 2003. The Group will put more efforts in mass media advertising to promote “Puli Capsule” as in the previous years.

The Directors expect that the above-mentioned measures will improve the market share of the Group’s products and add more contributions to the shareholders’ return.

RESEARCH AND DEVELOPMENT AND THE STAPHYLOKINESE PROJECT

During the year under review, the Group continued to engage Fujian Normal University Everpride Biopharmaceutical Research and Development Centre for its research work, especially the Staphylokinese Project. Staphylokinese is a genetically-engineered medicine, which is the third

Management Discussions and Analysis

generation of thrombotic medicine. The clinical application sample and its other related materials were submitted to the SDA in January 2002 for clinical trial approval. Up to the date of this report, such approval has not been obtained and the application is still in progress. Once the clinical trials are completed and approved, the Group will make an application for a Certificate of New Medicine in respect of Staphylokinase. Such delay was due to the requests for additional information by the SDA.

Application for GMP certificate for the Group's production complex

The construction work of the main production complex in Taigu County, Shanxi Province has been completed. Trial production commenced in June 2002 and commercial production began in October 2002. The application for the GMP certification for the production complex was approved by the SDA on 28 February, 2003 (certificate numbers: E2309-2310). The GMP certification was delayed mainly because additional information had been requested by the SDA.

Liquidity and Financial Resources

The Group generally finances its operations through internally-generated cash flows and banking facilities provided by its principal bankers in Mainland China. As at 31 December, 2002, the Group had cash and bank deposits amounting to approximately RMB11,268,000 (2001 — RMB29,581,000) and had banking facilities of RMB30,000,000 (2001 — RMB16,050,000). With the available resources, the Directors believe that the Group has adequate working capital to finance its business operations and business objectives as stated in the Prospectus.

Capital Structure

The shares of the Company were listed on the GEM of the Stock Exchange on 20 July, 2001. There has been no change in the capital structure of the Company since the listing date.

Foreign Exchange Exposure

The Group mainly earns revenue and borrowings are both denominated in Renminbi and costs are incurred in Renminbi and Hong Kong Dollars. The Directors consider that the impact of the foreign exchange exposure of the Group is minimal and has no significant adverse effect on the normal operation of the Group.

Significant investment

Save as investment in an associate which is disclosed in Note 14 to the accompanying audited financial statements, the Group had no significant investments during the year under review.

Management Discussions and Analysis

Material acquisition and disposals

The Group had no material acquisitions or disposals during the year under review. It has no plans for material investments or capital assets other than those set out in the Prospectus.

Employee information

Currently, the Group has a total of 190 employees working in Hong Kong and Mainland China. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The staff costs, including directors' emoluments, were approximately RMB14,207,000 for the year under review (2001 — RMB11,321,000).

The Company also offers a share option scheme for the employees, details of which are set out in Note 27 to the accompanying audited financial statements.

Gearing ratio

As at 31 December, 2002, the Group's gearing ratio, being the ratio of total liabilities to total assets, was 43 per cent. (2001 — 29 per cent.).

Contingent liabilities

As at 31 December, 2002, the Group had no contingent liabilities. (2001 — Nil)



Management Discussions and Analysis

Outlook

The Directors anticipate that fierce competition in the pharmaceutical industry in Mainland China will continue to affect adversely the future earnings and prospects of the Group.

Looking ahead, despite that the Group continues to face keen competition with the competitors in Mainland China, the Directors are confident that the turnover and operating results will be improved if “Puli Capsule” as a newly-introduced OTC medicine obtains satisfactory acceptance in the market in the foreseeable future.

The Group will continue to search for pharmaceutical manufacturers domestically and abroad to promote sales of the main component of “Plasmin Capsule” — earthworm powder, and the Directors believe that it will further enhance the income base of the Group.

Going forward, the Board will make every effort to improve the operation results of the Group and continue to look for other pharmaceutical manufacturers for possible cooperation, such as merger and acquisition, so as to strengthen the profitability and minimize the performance risk of the Group.

Comparison of objectives and Actual Business Progress

Business objectives up to 31 December, 2002 as stated in the Prospectus

Actual business progress up to 31 December, 2002

1. Research and development

- | | |
|---|--|
| <ul style="list-style-type: none"> — Fujian Normal University Everpride Biopharmaceutical Research and Development Centre to continue its research work. — To apply for a Certificate of New Medicine in respect of Staphylokinese and to continue the clinical trials of Staphylokinese. — To reach cooperation agreement with Fujian Tianshen Pharmaceutical Co., Ltd. ("Fujian Tianshen") in respect of Baobijia Project. | <ul style="list-style-type: none"> — To continue its research on a new medicine known as "Staphylokinese", a kind of genetically-engineered medicine, which is a blood clots solvent. — The samples of Staphylokinese and other related materials were submitted to the SDA for clinical trial approval. Up to the date of this report, such approval has not been obtained and the review is still in progress. Once the clinical trials are completed and approved, the Group will make an application for a Certificate of New Medicine in respect of Staphylokinese. Such delay was due to the requests for additional information by the SDA. — The negotiation has fully stopped due to the restructuring of Fujian Tianshen being still in progress and there is no specific time for the completion of the restructuring. — The Directors believe that the cessation of Baobijia Project will not have any adverse effects on the business objectives of the Group as a whole. The Directors will continue to search for other cooperation projects to replace this project. |
|---|--|

Comparison of objectives and Actual Business Progress

Business objectives up to 31 December, 2002 as stated in the Prospectus

Actual business progress up to 31 December, 2002

2. Sales and marketing

- | | |
|---|--|
| <ul style="list-style-type: none"> — To prepare for sale of “Plasmin Capsule” in Europe by appointing pharmaceutical distributors in Germany. — To commence the promotion of Baobijia products. — To introduce “Plasmin Capsule” into the European market. | <ul style="list-style-type: none"> — A pharmaceutical distributor in Germany had been appointed and it started to sell “Plasmin Capsule” in April 2002. — Due to the cancellation of the negotiation with Fujian Tianshen, Baobijia product is not available anymore. — The product of “Plasmin Capsule” has been introduced to the European markets, such as Germany and Russia. |
|---|--|

3. Production

- | | |
|---|--|
| <ul style="list-style-type: none"> — To commence design or acquisition of Staphylokinese production lines in its production complex in Taigu County, Shanxi Province. — To obtain GMP certificate for its production complex in Taigu County, Shanxi Province. — To commence trial production of “Plasmin Capsule” in Taigu County, Shanxi Province. | <ul style="list-style-type: none"> — Due to the delay in both the clinical trials and the application for the Certificate of New Medicine, the design or acquisition of Staphylokinese production lines has been put on hold until the Certificate of New Medicine is duly issued by the SDA. Once the application for the Certificate of New Medicine is approved, the design or acquisition of new production lines will begin as soon as possible. — The Group obtained the GMP certification (certificate numbers: E2309-2310) for its production complex on 28 February, 2003. The delay was due to the fact that the processing time was much longer than expected and additional information had been requested by the SDA. — Trial production commenced in June 2002 and commercial production began in October 2002. |
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Comparison of objectives and Actual Business Progress

Business objectives up to 31 December, 2002 as stated in the Prospectus

- To complete the construction or design of Staphylokinese production lines in its production complex in Taigu County, Shanxi Province.

Actual business progress up to 31 December, 2002

- Due to the significant delay in obtaining the Certificate of New Medicine in respect of Staphylokinese as mentioned above, the design of Staphylokinese production lines is still not available for the time being. However, the construction of this production complex has been completed. Once the Certificate of New Medicine is obtained and the design of such production lines is completed, the installation of such production lines will be available without any delay.

4. Use of net proceeds from the initial placement

The net proceeds from the initial placement had been applied in the following areas:—

	Amount to be used up to 31 December, 2002 as disclosed in the Prospectus	Actual amount used up to 31 December, 2002
	HK\$'Million	HK\$'Million
For the development of new medicine projects	4.71	4.15
For the construction of the Group's production complex	22.61	21.46
For the development of research and development centre	1.41	1.35
For the expansion of distribution networks in the Mainland China and overseas markets	6.5	7.1
	35.23	34.06

Use of proceeds was almost the same as the estimation made in the Prospectus. The balance of the net proceeds was deposited into banks in Hong Kong and will be applied to such business objectives as disclosed in the Prospectus.

Directors and Senior Management Profiles

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Chung Chi Mang (鍾志孟先生), aged 41, is the founder and the Chairman of the Group. Mr. Chung is responsible for formulating the overall business development and corporate strategies. In early 1990's, Mr. Chung became involved in the marketing and distribution of medical and healthcare products. In May, 1995, Mr. Chung established and became the chairman and general manager of Everpride Pharmaceutical which has since been fully devoted to the development of "Plasmin Capsule". Mr. Chung has been engaged in the business development and corporate management for over 10 years, during which he gained wide experience in product development and marketing in the pharmaceutical industry. Mr. Chung is currently a deputy chairman of the Old Aged Dietary Association of China (中國老年保健協會副會長) and a director of the Old Aged Foundation of China (中國老年基金會理事會理事).

Mr. Zhang Xue Min (張學敏先生), aged 52, is the Managing Director and vice-chairman of the Company. Mr. Zhang assists in the formulation of the overall business strategies and coordinating business operations. Mr. Zhang studied and graduated from the professional training course provided by Xiamen University. Prior to joining the Group in January, 2000, Mr. Zhang held various managerial positions with a number of PRC based trading companies and gained substantial experience in corporate management and business development. Mr. Zhang joined Everpride Hong Kong as managing director in charge of sales, distribution and promotion of medical and healthcare products of the Group outside of Mainland China.

Mr. Zhong Zhi Gang (鍾志剛先生), aged 40, is an executive Director and a deputy general manager of Everpride Pharmaceutical. Mr. Zhong is responsible for the production and marketing activities of the Group. Mr. Zhong joined the Group in March, 1996 as a deputy general manager of Everpride Pharmaceutical in charge of the sale of medicines. In November, 1999, Mr. Zhong became a director of Everpride Pharmaceutical. Mr. Zhong is experienced in the sales, distribution and promotion of medical and healthcare products in China. Mr. Zhong is the brother of Mr. Chung Chi Mang.

Mr. Xie Xiaodong (謝曉東先生), aged 53, is an executive Director and a deputy general manager of Everpride Pharmaceutical. Mr. Xie has been engaged in the sales of medical and healthcare products outside the PRC for over ten years. Mr. Xie graduated from Fuzhou University, majoring in electrical engineering. Mr. Xie joined the Group in October, 1995 when he was appointed as a director of Everpride Pharmaceutical.

Directors and Senior Management Profiles

Mr. Zhang Yuanfu (張元福先生), aged 40, is an executive Director and the Company Secretary of the Company. Mr. Zhang is also the financial controller of the Group and is responsible for the accounting and finance functions of the Group. Mr. Zhang graduated from the University of Shandong and holds a bachelor's degree in business administration. Mr. Zhang is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Society of Accountants. Prior to joining the Group in August, 2000, Mr. Zhang worked for a number of listed companies in Hong Kong and has more than 16 years of experience in accounting and financial management.

Independent Non-executive Directors

Mr. Kwok Wai Fung (郭偉峰先生), aged 46, was appointed as independent non-executive Director on 5 July, 2001. Mr. Kwok has long been involved in journalism and is currently the deputy chairman and general manager of China Review Culture Ltd. (中國評論文化有限公司) and the chairman of Associated Multimedia (China) Company Limited (華聯多媒體有限公司). Mr. Kwok is also an executive committee member of All-China Youth Federation (中華全國青年聯合會) and a deputy director of Beijing Taiwan Economic Research Centre (北京台灣經濟研究中心).

Mr. Ho Leong Leong, Lawrence (何亮亮先生), aged 52, was appointed as independent non-executive director on 8 November, 2002 for the replacement of Professor Zhang Zuxun (張祖珣教授), who resigned on the same date. Mr. Ho is a famous commentator on current affairs and the deputy director of editorial department of Phoenix Satellite Television Holdings Limited.

SENIOR MANAGEMENT OF THE GROUP

Mr. Shan Bingwei (單炳偉先生), aged 48, is the deputy general manager of the Group. He was previously the deputy head of the technical intelligence section of Taiyuan Iron and Steel Factory. In November, 1995, Mr. Shan became a deputy general manager of Everpride Pharmaceutical.

Ms. Wang Shulan (王淑蘭女士), aged 63, is a deputy general manager and the chief engineer of the Group. She graduated from the pharmacy department of Shenyang School of Pharmacy, majoring in antibiotics. Ms. Wang joined Taiyuan Pharmaceutical Factory and later became the chief engineer. In October, 1995, Ms. Wang joined Everpride Pharmaceutical as the chief engineer in charge of the research, manufacture, development and production technology of "Plasmin Capsule". Ms. Wang is experienced in the research and development and production technology of Chinese and chemical medicines. Ms. Wang was an editor of the Chinese Pharmaceutical Journal (《中國醫藥》雜誌編委), a director of the Shanxi Institute of Pharmacy (山西省藥學會理事) and a director of the Taiyuan Institute of Pharmacy (太原市藥學會理事).

Directors and Senior Management Profiles

Mr. Hou Naigong (侯乃公先生), aged 52, is a deputy general manager of Everpride Pharmaceutical. Mr. Hou worked for Anhui Maanshan Biochemical Pharmaceutical Factory and later held the position as a deputy head of the Factory. In July, 1998, Mr. Hou joined Everpride Pharmaceutical as deputy general manager in charge of the production of “ Plasmin Capsule”.

Mr. Yang Chunping (楊春平先生), aged 46, is the chief accountant of Everpride Pharmaceutical. Prior to joining the Group, Mr. Yang was the finance head and deputy chief accountant of Taiyuan Fenxi Machinery Factory. In March, 1999, Mr. Yang joined Everpride Pharmaceutical and is in charge of accounting and finance matters of Everpride Pharmaceutical.

Mr. Wang Bing (王賓先生), aged 37, is the advertising controller of Everpride Pharmaceutical. Mr. Wang graduated from the staff college of Taiyuan No. 2 Light Industrial Bureau, majoring in interior design. In May, 1999, Mr. Wang joined Everpride Pharmaceutical as the advertising controller in charge of the advertising planning and implementation of the Group, Mr. Wang is experienced in the planning of product advertising.

Report of the Directors

The Directors are pleased to present their annual report together with the audited consolidated financial statements of the Company and the Group for the year ended 31 December, 2002.

GROUP REORGANISATION AND BASIS OF PREPARATION

The Company

The Company was incorporated in the Cayman Islands on 1 August, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited ("Stock Exchange") since 20 July, 2001.

Group reorganisation

On 5 July, 2001, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation (the "Reorganisation"), which involved companies under common control. The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the comparative figures in the consolidated financial statements for the year ended 31 December, 2002 have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31 December, 2001, rather than from the date on which the Reorganisation was completed.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IAS") published by the International Accounting Standards Board, and are supplemented by the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

Details of the Reorganisation and the basis of preparation of the financial statements are set out in Notes 1 and 2 to the accompanying consolidated financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of subsidiaries and associate are detailed in Notes 13 and 14 to the accompanying consolidated financial statements respectively.

Report of the Directors

An analysis of the Group's turnover and contribution to profit from operations by geographical location of customers for the year ended 31 December, 2002 is detailed in Note 31 to the consolidated accompanying financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December, 2002, the five largest customers accounted for approximately 63 per cent. of the Group's total turnover. The five largest suppliers of the Group accounted for approximately 48 per cent. of the Group's total purchases. In addition, the Group's largest customer accounted for approximately 41 per cent. of the Group's total turnover while the largest supplier accounted for approximately 15 per cent. of the Group's total purchases.

None of the Directors, their associates or any shareholders (which, to the knowledge of the Directors, own more than 5 per cent. of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December, 2002 are set out in the consolidated income statement on page 26 of this annual report.

The Directors do not recommend the payment of final dividend for the year ended 31 December, 2002, and recommend that the retained profit of approximately RMB42,968,000 as at 31 December, 2002 be carried forward.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 26 to the accompanying consolidated financial statements.

RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out on pages 63 to 66, respectively, of this annual report. Movements in retained profit of the Group during the year are set out in the consolidated income statement on page 63 of this annual report.

As at 31 December, 2002, the Company's reserve available for distribution to shareholders amounted to approximately RMB35,014,000 (2001 — RMB45,702,000) computed in accordance with the Companies Law (2000 Revision) of the Cayman Islands and the Company's Articles of Association. This includes the

Report of the Directors

Company's contributed surplus of approximately RMB56,774,000 (2001 — RMB56,774,000), less accumulated deficit of approximately RMB10,688,000 (2001: RMB11,072,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

PURCHASE, SALE OR REDEMPTION OF SHARES

None of the members of the Group had purchased, sold or redeemed any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and the laws in the Cayman Islands in relation to the issue of new shares by the Company.

PENSION SCHEMES

Details of the Group's pension schemes are set out in Note 29 to the accompanying financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 13 to the accompanying financial statements.

LEASEHOLD PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Movements in leasehold properties and property, plant and equipment of the Group during the year are set out in Note 10 and Note 11 to the accompanying financial statements, respectively.

BANK BORROWINGS AND OTHER BANKING FACILITIES

Particular of bank borrowings and other banking facilities as at 31 December, 2002 are set out in Note 22 and Note 23 to the accompanying financial statements, respectively.

CONNECTED TRANSACTIONS

There were no significant connected party transactions entered into by the Group for the year ended 31 December, 2002.

Report of the Directors

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company who held office during the year and up to the date of this report were:

Executive Directors

Mr. Chung Chi Mang
Mr. Zhang Xue Min
Mr. Xie Xiaodong
Mr. Zhong Zhi Gang
Mr. Zhang Yuanfu

Independent Non-executive Directors

Mr. Kwok Wai Fung
Ms. Zhang Zuxun (Resigned on 8 November, 2002)
Mr. Ho Leong Leong, Lawrence (Appointed on 8 November, 2002)

In accordance with the Company's Articles of Association, Messrs. Mr. Zhong Zhi Gang and Mr. Ho Leong Leong, Lawrence will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

Each of Mr. Chung Chi Mang and Mr. Zhang Xue Min has entered into a service contract for an initial term of three years commencing from 1 November, 2000. Each of Mr. Xie Xiaodong and Mr. Zhong Zhi Gang has entered into a service contract for an initial term of three years commencing from 5 July, 2001. Mr. Zhang Yuanfu has entered into a service contract for an initial term of one year commencing from 9 October, 2001. All the service contracts may be terminated by either party thereto giving to the other party three months' prior notice in writing.

The independent non-executive Directors have not been appointed for any fixed term but shall be subject to retirement by rotation in accordance with the Articles of Association of the Company.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December, 2002, according to the register required to be kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the Directors, the chief executives of the Company and their respective associates were as follows:

(a) Shares in the Company:

<u>Name of Director</u>	<u>Corporate Interests</u>	<u>Personal/ Family/Other Interest</u>	<u>Total</u>	<u>Approximate Percentage of Issued Shares</u>
Chung Chi Mang ("Mr. Chung")	366,670,000	—	366,670,000	61.1

Mr. Chung is the sole shareholder and the sole director of Montgomery Properties Holding Limited (formerly known as Montgomery Property Limited) which is the holder of approximately 61.1 per cent. of the issued share capital of the Company.

Save as disclosed above, none of the Directors, chief executives and their associates had, as at 31 December, 2002, any interests in securities of the Company and any its subsidiaries or associated company as defined in the SDI ordinance.

(b) Options to subscribe for shares in the Company

Pursuant to a share option scheme adopted by the Company on 5 July, 2001, the Directors may, at their discretion, offer to full-time employees and executive Directors of the Company or its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. As at 31 December, 2002, none of the Directors and employees of the Company or its subsidiaries were granted options to subscribe for shares in the Company.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31 December, 2002, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors 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 chief executives of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10 per cent. or more of the Company's issued share capital:

<u>Name</u>	<u>Number of Shares</u>	<u>Approximate Percentage of Holding</u>
Montgomery Properties Holding Limited (Note)	366,670,000	61.1

Note: Montgomery Properties Holding Limited (formerly known as Montgomery Property Limited) is a company established in the British Virgin Islands with limited liability and wholly owned by Mr. Chung, the Chairman and an executive director of the Company.

COMPETING INTEREST

Save as disclosed in the Prospectus, none of the Directors and the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business which competes or may compete with the business of the Group in Mainland China.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SPONSOR'S INTERESTS

As announced on 20 September, 2002, the Company changed its retained sponsor from DBS Asia Capital Limited ("DBS Asia") to Asia Investment Capital Limited ("Asia Investment Capital") with effect from 21 September, 2002.

Pursuant to a sponsor's agreement entered into between the Company and Asia Investment Capital on 20 September, 2002, Asia Investment Capital has been appointed to act as the Company's retained sponsor for the period from 21 September, 2002 to 31 December, 2003 in return for an advisory fee.

Report of the Directors

Save as disclosed herein, none of DBS Asia, Asia Investment Capital, their respective directors, employees and associates (as referred to in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 31 December, 2002.

AUDIT COMMITTEE

The Company established an audit committee in July 2001 with terms of reference in compliance with Rules 5.23 to 5.27 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal monitoring system of the Group. The audit committee has two members comprising Mr. Kwok Wai Fung (who is acting as the chairman of the audit committee) and Mr. Ho Leong Leong, Lawrence, the two independent non-executive Directors. The audit committee met four times during the year ended 31 December, 2002. The Group's audited results for the year ended 31 December, 2002 have been reviewed by the audit committee, and it was in its opinion that (i) the preparation of such results complied with the applicable standards and statutory requirements and the requirements of the Stock Exchange and that (ii) the internal reporting and control system of the Group had been properly implemented and was adequate to keep the Board informed of the business and the management affairs of the Group and there were no material adverse affairs in the operation of the Group. During the year ended 31 December, 2002, no material matters were identified and reported by the Board to the audit committee and the supervisory committee of the Board. The auditors of the Group, Messrs. Charles Chan, Ip & Fung CPA Ltd, have also reviewed the reports submitted by the audit committee on the internal reporting and monitoring system of the Group and were of opinion that the internal reporting and monitoring system had been properly implemented and that there were no material adverse affairs in the operation of the Group that came to their attention.

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, the Company has complied with the standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.28 to 5.39 of GEM Listing Rules throughout the financial year ended 31 December, 2002.

AUDITORS

Messrs. Charles Chan, IP & Fung CPA Ltd were appointed as auditors of the Company in 2002 upon the resignation of Messrs. Arthur Andersen & Co.

The accompanying financial statements were audited by Messrs. Charles Chan, Ip & Fung CPA Ltd. A resolution for their reappointment as auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

Auditors' Report

**CCIF**

Charles Chan, Ip & Fung CPA Ltd
37th Floor Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

Report of the Auditors to the Shareholders of
EVERPRIDE BIOPHARMACEUTICAL COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the balance sheet of Everpride Biopharmaceutical Company Limited (the "Company") and the consolidated balance sheet of the Company and its subsidiaries (collectively referred as the "Group") as at 31 December 2002 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements, set out on page 26 to 72, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as at 31 December 2001, were audited by another auditor whose report dated 22 March 2002, expressed on unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2002, and of the results of the Group's operations, its changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Charles Chan, Ip & Fung CPA Ltd
Certified Public Accountants
Hong Kong, 26 March, 2003.

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31 December, 2002 (Expressed in Renminbi)

	Note	2002 RMB'000	2001 RMB'000
Turnover	3	73,062	107,299
Cost of sales		(23,168)	(34,891)
Gross profit		49,894	72,408
Other revenue	3	1,092	502
Selling and distribution expenses		(13,084)	(23,982)
General and administrative expenses		(30,311)	(23,007)
Profit from operations		7,591	25,921
Finance costs	4	(1,516)	(708)
Share of result of an associate		18	—
Profit from ordinary activities before taxation	5	6,093	25,213
Taxation	6	(3,690)	(8,162)
Profit attributable to shareholders	8	2,403	17,051
Earnings per share — Basic	9	RMB0.4 cents	RMB3.3 cents

The notes on pages 31 to 72 form part of these financial statements.

Balance Sheets

As at 31 December, 2002 (Expressed in Renminbi)

	Note	Group		Company	
		2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
NON-CURRENT ASSETS					
Leasehold properties	10	31,232	16,715	—	—
Property, plant and equipment	11	46,550	39,958	—	—
Intangible assets	12	3,850	284	—	—
Deposit for purchase of leasehold properties		17,135	—	—	—
Interests in subsidiaries	13	—	—	100,784	88,504
Interest in an associate	14	15,362	—	—	—
Total non-current assets		114,129	56,957	100,784	88,504
CURRENT ASSETS					
Available-for-sale investments	15	—	6,172	—	6,172
Inventories	16	24,375	41,871	—	—
Prepayments, deposits and other current assets		3,475	7,869	20	617
Accounts receivable	17	61,458	20,730	—	—
Due from a director	18	—	6,924	—	—
Cash and cash equivalents	19	11,269	29,581	9	17,202
Total current assets		100,577	113,147	29	23,991
CURRENT LIABILITIES					
Due to a director	18	(276)	—	—	—
Accounts payable	20	(1,316)	(2,385)	—	—
Deposits and receipts in advance from customers		(10,255)	(14,602)	—	—
Accruals and other payables	21	(6,897)	(6,984)	(1,599)	(2,593)
Short-term bank borrowings, secured	22	(30,000)	(900)	—	—
Long-term secured bank borrowings, current portion	23	(389)	—	—	—
Finance lease obligation, current portion	24	(240)	(240)	—	—
Tax payable	25	(38,696)	(23,365)	—	—
Total current liabilities		(88,069)	(48,476)	(1,599)	(2,593)
Net current assets/(liabilities)		12,508	64,671	(1,570)	21,398
Total assets less current liabilities		126,637	121,628	99,214	109,902
NON-CURRENT LIABILITIES					
Long-term secured bank borrowings, non-current portion	23	(2,847)	—	—	—
Finance lease obligation, non-current portion	24	(499)	(739)	—	—
Net assets		123,291	120,889	99,214	109,902
CAPITAL AND RESERVES					
Share Capital	26	64,200	64,200	64,200	64,200
Reserves	28	59,091	56,689	35,014	45,702
		123,291	120,889	99,214	109,902

Approved by the Board of Directors on 26 March, 2003:

CHUNG CHI MANG
Director

ZHANG XUE MIN
Director

The notes on pages 31 to 72 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December, 2002 (Expressed in Renminbi)

	2002	2001
	RMB'000	RMB'000
Shareholders' equity at 1 January	120,889	40,744
Share issuance expenses	—	(10,961)
Exchange adjustments	(1)	(96)
Net losses not recognised in the consolidated income statement	(1)	(11,057)
Net profit for the year	2,403	17,051
Movements in share capital:		
Shares issued	—	74,151
Shareholders' equity at 31 December	123,291	120,889

The notes on pages 31 to 72 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December, 2002 (Expressed in Renminbi)

	Note	2002		2001	
		RMB'000	RMB'000	RMB'000	RMB'000
Operating activities					
Profit from ordinary activities before taxation		6,093		25,213	
Adjustments for:					
Depreciation		1,422		880	
Amortisation of leasehold properties		991		746	
Amortisation of intangible assets		434		100	
Finance costs		1,516		708	
Interest income		(537)		(502)	
Share of profit of an associate		(18)		—	
Profit on sales of available-for-sale investment		(140)		—	
(Write back of provision)/provision for obsolete inventories		(177)		423	
Provision for bad and doubtful debts		4,622		821	
Loss on disposal of property, plant and equipment		156		—	
Net loss on available-for-sale investments carried at fair value		—		248	
Operating profit before changes in working capital		14,362		28,637	
Decrease in inventories		17,673		3,978	
Decrease/(increase) in prepayments, deposits and other current assets		4,394		(1,453)	
Increase in accounts receivable		(45,350)		(17,103)	
Decrease in accounts payable		(1,070)		(6,076)	
Decrease in accruals and other payables		(89)		(6,823)	
Decrease in deposits and receipts in advance from customers		(4,347)		(5,832)	
Increase in value added tax payable		11,647		6,407	
Net cash (used in)/from operating activities			(2,780)		1,735

The notes on pages 31 to 72 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December, 2002 (Expressed in Renminbi)

	Note	2002		2001	
		RMB'000	RMB'000	RMB'000	RMB'000
Investing activities					
Payment for purchase of leasehold properties		—		(572)	
Payment for purchase of property, plant and equipment		(23,677)		(32,515)	
Payment for acquisition of intangible assets		(4,000)		—	
Payment for deposit for purchase of leasehold properties		(17,135)		—	
New advances to the associate		(15,150)		—	
Payment for purchase of available-for-sale investments		—		(6,420)	
Proceeds from sale of available-for-sale investments		6,313		—	
Payment for purchase of the associate		(200)		—	
Decrease/(increase) in amount due from a director		7,200		(6,924)	
Decrease/(increase) in pledged bank deposits		6,260		(11,324)	
Decrease/(Increase) in bank deposits with original maturity over three months		10,595		(10,594)	
Interest received		537		502	
Exchange adjustments		(1)		(96)	
Net cash used in investing activities			(29,258)		(67,943)
Financing activities					
Capital element of finance lease rentals paid		(240)		(241)	
Proceeds from new bank loans		33,603		—	
Repayment of bank loans		(367)		(5,700)	
Net proceeds from shares issued		—		63,190	
Interest element of finance lease rentals paid		(51)		(47)	
Interest paid		(1,465)		(661)	
Net cash from financing activities			31,480		56,541
Net decrease in cash and cash equivalents			(558)		(9,667)
Cash and cash equivalents at 1 January			967		10,634
Cash and cash equivalents at 31 December	19		409		967

The notes on pages 31 to 72 form part of these financial statements.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 1 August, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Its shares have been listed on GEM since 20 July, 2001. Its registered office is located at Zephyr House, George Town, Grand Cayman, Cayman Islands, British West Indies; and its principal place of business is Unit 3105, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

On 5 July, 2001, the Company became the holding company of the other companies comprising the group pursuant to a group reorganisation (the "Reorganisation"), which involved companies under common control. The Company and its subsidiaries resulting from the Reorganisation (collectively referred to hereafter as the "Group") have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the comparative figures in the consolidated financial statements for the year ended 31 December, 2002 have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31 December, 2001, rather than from the date on which the Reorganisation was completed.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies consistently applied in the preparation of the financial statements conform to International Financial Reporting Standards ("IAS") published by the International Accounting Standards Board, and are supplemented by the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM. Principal accounting policies are summarised below:

a. Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost except that, as disclosed in the accounting policies set out below, the available-for-sale investments are stated at market price.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

b. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Except for the Reorganisation as disclosed in Note 1, the purchase method of accounting is used for acquired businesses. Results of the subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition or to the effective date of disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

c. Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to benefit from its activities.

In the Company's financial statements, interests in subsidiaries are stated at cost less any impairment losses (see note 2 (i)), while income from the subsidiaries is recorded to the extent of dividends received and receivable.

d. Associate

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Interest in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associate for the year.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

e. Leasehold properties

Land in Mainland China is owned by the State and no individual land ownership right exists. In accordance with IAS 40 "Investment Property", it is concluded that all interests in property held under an operating lease should be dealt with in accordance with IAS 17 "Leases". All leasehold land and buildings are excluded from the classification of property, plant and equipment and are classified as leasehold properties. Costs of the leasehold properties are amortised on a straight line basis in a systematic manner which is representative of the time pattern of the benefits. In this respect, leasehold properties are stated at cost less accumulated amortisation and impairment losses (see note 2(i)).

f. Property, plant and equipment and depreciation

(i) Property, plant and equipment, other than construction-in-progress, are stated at cost less accumulated depreciation and impairment losses (see note 2(i)). Major expenditures on modifications and betterments of property, plant and equipment which will result in future economic benefits are capitalised, while expenditures on repairs and maintenance are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Machinery and equipment	10%
Furniture and office equipment	12.5%
Motor vehicles	12.5% to 16.7%

(ii) The depreciation method and useful life are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the property, plant and equipment.

(iii) Gains or losses arising from the disposal of property, plant and equipment are determined by the difference between the estimated net disposal proceeds less the carrying amount of the asset and are recognised in the income statement on the date of disposal.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

f. Property, plant and equipment and depreciation (Continued)

- (iv) Construction-in-progress represents buildings under construction and machinery pending for installation. It is stated at cost, which includes construction expenditures incurred, cost of machinery, interest capitalised and other direct costs capitalised during the construction and installation period. No depreciation is provided in respect of construction-in-progress until the construction or installation is completed and the asset is put into operational use.

g. Intangible assets and amortisation

- (i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

- (ii) Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.
- (iii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

g. Intangible assets and amortisation (Continued)

- (iv) Amortisation of intangible assets is charged to the income statement on a straight-line basis over the assets' estimated useful lives of not exceeding ten years from the date when the assets are available for use.
- (v) The amortisation method and useful life of the intangible assets are reviewed periodically to ensure that the method and period of amortisation are consistent with the expected pattern of economic benefits from the intangible assets.

h. Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) *Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

i. Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- leasehold properties;
- property, plant and equipment;
- interests in subsidiaries and associate; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

j. Available-for-sale investments

Effective 1 January, 2001, the Group has adopted IAS 39 "Financial Instruments: Recognition and Measurement" to account for its investments in equity securities. The Group classified all its investments in equity securities as available-for-sale investments. Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date. Gains or losses on measurement to fair value of available-for-sale investments are recognised in the income statement. The purchases and sales of available-for-sale investments are accounted for at trade dates.

k. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated normal selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. Provision is made for obsolete, slow-moving or defective items where appropriate.

l. Receivables

Receivables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

m. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as component of cash and cash equivalents for the purpose of the cash flow statement.

n. Deferred taxation

Deferred taxation is provided using the liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilised. At each balance sheet date, individual companies within the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets, and recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered and conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

o. Provisions and contingencies

A provision is recognised when, and only when, the Group has a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognised as interest expense.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

o. Provisions and contingencies (Continued)

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

p. Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods, the related risks and rewards of ownership. Revenue excludes value added taxes and is after deduction of all trade discounts and goods returns.

(ii) Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(iii) *Commission income*

Commission income is recognised when the services are rendered.

(iv) *Interest income*

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

q. Advertising and promotion costs

Costs of advertising and promotion are expensed as incurred.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

r. Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under the Mandatory Provident Funds Scheme, which is defined contribution scheme. The employer's monthly contribution to the scheme is at 5% of the Hong Kong employees' relevant income, subject to a monthly contribution cap of HK\$1,000 (equivalent to RMB1,070) per month and thereafter contributions are voluntary.

The pension scheme covering all the Group's Mainland China employees is defined contribution scheme at a rate of 17% of the basic salary of its Mainland China employees, and is in accordance with local practices and regulations.

s. Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowings are initially recognised at the proceeds received, net of transaction costs. They are subsequently carried at amortised costs using the effective interest rate method, the difference between net proceeds and redemption value being recognised in the net profit or loss for the period over the life of the borrowings.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

t. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("measurement currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective measurement currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into their respective measurement currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Renminbi. For the purpose of consolidation, assets and liabilities of subsidiaries with measurement currencies other than Renminbi are translated into Renminbi at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into Renminbi at the average applicable rates during the year. The resulting exchange differences are dealt with as a movement in exchange reserve.

u. Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

v. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group is principally engaged in one business segment in two geographical regions. In accordance with the Group's internal financial reporting, the Group has chosen geographical segment information as the reporting format.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

v. Segment reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interest.

w. Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet date (i.e. adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

x. Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

3. TURNOVER AND REVENUE

The Company is an investment holding company and the Group is principally engaged in the manufacture and sales of medicines.

Turnover represents the sales value of goods supplied to customers (which excludes value added tax and is stated after deduction of all goods returns and trade discounts), royalty and commission income. An analysis of turnover and revenue in the consolidated income statement is as follows:

	2002 RMB'000	2001 RMB'000
Turnover		
Sales of goods	68,562	106,714
Royalty income	4,500	—
Commission income	—	585
Total turnover	73,062	107,299
Other revenue		
Sample income	415	—
Interest income	537	502
Profit on sales of available-for-sale investments	140	—
Total other revenue	1,092	502
Total revenue	74,154	107,801

Sales to the top five customers accounted for approximately 63% of the Group's turnover for the year ended 31 December, 2002 (2001 — 64%).

4. FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest on bank borrowings wholly repayable within one year	1,273	873
Interest on bank borrowings wholly repayable after five years	192	—
Interest on finance lease obligation	51	47
Total borrowing cost	1,516	920
Less: Interest capitalised into construction-in-progress	—	(212)
	1,516	708

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2002 RMB'000	2001 RMB'000
Staff costs		
— retirement scheme contribution	965	680
— salaries, wages and other benefits	13,242	10,641
	14,207	11,321
Cost of inventories		
— subcontracting costs	1,400	7,728
— (write-back of provision)/provision for obsolete inventories	(177)	423
— other cost of inventories	21,945	26,740
	23,168	34,891
Depreciation of property, plant and equipment		
— owned assets	1,219	775
— assets held under finance lease	203	105
Amortisation of leasehold properties	991	746
Amortisation of intangible assets	434	100
Research and development costs	1,179	1,090
Advertising and promotion expenses	6,769	18,506
Operating lease rentals of premises	861	1,044
Provision for bad and doubtful debts	4,622	821
Net loss for fair value adjustments of available-for-sale investments	—	248
Loss on disposal of property, plant and equipment	156	—
Net exchange loss	370	266
Auditors' remuneration	373	963

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

6. TAXATION

Taxation in the consolidated income statement represents:

	2002 RMB'000	2001 RMB'000
Current taxation		
— Mainland China enterprise income tax (note c, below)	3,684	8,162
Share of taxation of an associate in Mainland China	6	—
	3,690	8,162

Notes —

- a. The Company is exempted from taxation in the Cayman Islands until 2020. Its subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of the British Virgin Islands income taxes.
- b. No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit in Hong Kong.
- c. Shanxi Everpride Pharmaceutical Co., Ltd. ("Shanxi Everpride"), a wholly-owned subsidiary established and operating in Shanxi Province, Mainland China, is subject to Mainland China enterprise income tax at a rate of 33% (state income tax — 30% and local income tax — 3%). However, it is exempted from state income tax and local income tax for two years starting from the first year of profitable operations after offsetting prior years' losses, followed by a 50% reduction on the state income tax for the next three years. The tax exemption period of Shanxi Everpride expired on 31 December, 2000 and it is subject to Mainland China enterprise income tax at an effective rate of 18% from 1 January, 2001 to 31 December, 2003.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

6. TAXATION (Continued)

The reconciliation of Mainland China statutory tax rate to the effective income tax rate based on the profit from ordinary activities before taxation as stated in the consolidated income statement is as follows:

	2002	2001
	RMB'000	RMB'000
Profit from ordinary activities before taxation	6,093	25,213
Tax at the statutory tax rate of 33%	2,010	8,320
Tax effect of expenses that are not deductible in determining taxable profit	422	824
Tax credit not utilised	2,244	2,210
Tax effect of income that is not taxable in determining taxable profit	(58)	(26)
Tax effect of reduced tax rate	(928)	(3,166)
Taxation	3,690	8,162

As at 31 December, 2002, the Group had unrecognised deferred tax assets of approximately RMB5,205,000 (2001 — RMB2,961,000), which primarily represent the tax effect of accumulated tax losses. Such deferred tax assets were not recognised because it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are as follows:

	2002 RMB'000	2001 RMB'000
Fees for executive directors	—	—
Fees for non-executive directors	139	76
Other emoluments for executive directors		
— basic salaries and allowances	5,531	3,225
— bonus*	—	800
— retirement scheme contribution	75	35
	5,745	4,136

* The Group's executive directors are entitled to a discretionary bonus not exceeding 6% of the Group's profit attributable to shareholders.

No director waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year ended 31 December, 2002 (2001 — Nil).

The remuneration of the directors is within the following bands:

	2002 Number of directors	2001 Number of directors
Executive directors		
— Nil to RMB1,070,000 (equivalent of HK\$1,000,000)	2	3
— RMB1,070,001 (equivalent of HK\$1,000,001) to RMB1,605,000 (equivalent of HK\$1,500,000)	2	1
— RMB1,605,001 (equivalent of HK\$1,500,001) to RMB2,140,000 (equivalent of HK\$2,000,000)	—	1
— RMB2,140,001 (equivalent of HK\$2,000,001) to RMB2,675,000 (equivalent of HK\$2,500,000)	1	—
Non-executive directors		
— Nil to RMB1,070,000 (equivalent of HK\$1,000,000)	3	2
	8	7

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

During the year ended 31 December, 2002, the five executive directors received individual emoluments of approximately RMB2,464,000 (2001 — RMB1,657,000), RMB1,275,000 (2001 — RMB1,283,000), RMB1,239,000 (2001 — RMB607,000), RMB314,000 (2001 — RMB257,000) and RMB314,000 (2001 — RMB256,000) respectively. The three non-executive directors received fees of approximately RMB70,000 (2001 — RMB19,000), RMB53,000 (2001 — RMB19,000) and RMB16,000 (2001 — Nil) respectively.

- b. The remuneration of the five highest paid individuals (including directors and other employees) is as follows:

	2002 RMB'000	2001 RMB'000
Basic salaries and allowances	5,669	3,225
Bonus	—	800
Retirement contribution	74	35
	5,743	4,060

Four (2001 — Five) of the highest paid individuals are directors of the Company, whose emoluments are included in note 7.a above.

The remuneration of the five highest paid individuals (including directors and employees) is within the following bands:

	2002 Number of individuals	2001 Number of individuals
Nil to RMB1,070,000 (equivalent of HK\$1,000,000)	2	3
RMB1,070,001 (equivalent of HK\$1,000,001) to RMB1,605,000 (equivalent of HK\$1,500,000)	2	1
RMB1,605,001 (equivalent of HK\$1,500,001) to RMB2,140,000 (equivalent of HK\$2,000,000)	—	1
RMB2,140,001 (equivalent of HK\$2,000,001) to RMB2,675,000 (equivalent of HK\$2,500,000)	1	—
	5	5

No emoluments of the five highest paid individuals (including directors and other employees) were incurred as inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of approximately RMB10,688,000 (2001 — RMB8,861,000) which has been dealt with in the financial statements of the Company.

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December, 2002 is based on the profit attributable to shareholders of approximately RMB2,403,000 (2001 — RMB17,051,000) and the weighted average of approximately 600,000,000 (2001 — 523,671,000) ordinary shares in issue during the year.

Diluted earnings per share is not presented because there were no dilutive potential ordinary shares in existence during the year ended 31 December, 2002 (2001 — Nil).

10. LEASEHOLD PROPERTIES

a. Movements in leasehold properties of the Group are as follows:

	Land RMB'000	Buildings RMB'000	Total RMB'000
Cost			
At 1 January, 2002	1,250	16,441	17,691
Transfer from construction-in-progress	—	15,508	15,508
At 31 December, 2002	1,250	31,949	33,199
Accumulated amortisation			
At 1 January, 2002	—	976	976
Amortisation for the year	—	991	991
At 31 December, 2002	—	1,967	1,967
Net book value			
At 31 December, 2002	1,250	29,982	31,232
At 31 December, 2001	1,250	15,465	16,715

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

10. LEASEHOLD PROPERTIES (Continued)

b. The analysis of net book value of leasehold properties is as follows:

	2002			2001		
	Land RMB'000	Buildings RMB'000	Total RMB'000	Land RMB'000	Buildings RMB'000	Total RMB'000
In Mainland China						
— long-term leases (i)	—	7,842	7,842	—	2,135	2,135
— medium-term leases (ii)	1,250	22,140	23,390	1,250	13,330	14,580
	1,250	29,982	31,232	1,250	15,465	16,715

Notes —

- (i) Buildings under long-term leases are granted with land use rights for periods ranging from 64 to 70 years up to 2064 to 2070.
- (ii) The land use right under medium-term leases comprises land use fees paid to the government of Taigu County for the right to use the land where the Group's factory buildings in Taigu County of Shanxi Province are located for a period of 40 years up to 2040.

Buildings under medium-term leases are granted with land use rights for periods ranging from 40 to 50 years up to 2040 to 2048.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT

a. Movements in property, plant and equipment of the Group are as follows:

	Machinery and equipment	Furniture and office equipment	Motor vehicles	Construction- in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
At 1 January, 2002	487	1,911	5,106	33,873	41,377
Additions	67	439	2,255	20,916	23,677
Transfer from construction- in-progress	6,304	—	—	(21,812)	(15,508)
Disposals	—	—	(191)	—	(191)
At 31 December, 2002	6,858	2,350	7,170	32,977	49,355
Accumulated depreciation					
At 1 January, 2002	159	443	817	—	1,419
Charge for the year	455	329	638	—	1,422
Written back on disposals	—	—	(36)	—	(36)
At 31 December, 2002	614	772	1,419	—	2,805
Net book value					
At 31 December, 2002	6,244	1,578	5,751	32,977	46,550
At 31 December, 2001	328	1,468	4,289	33,873	39,958

As at 31 December, 2002, the net book value of a motor vehicle held under finance lease of the Group was approximately RMB915,000 (2001 — RMB1,118,000).

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

b. Analysis of construction-in-progress of the Group is as follows:

	Group	
	2002 RMB'000	2001 RMB'000
Construction costs of buildings	28,640	23,241
Cost of machinery pending installation	4,337	10,632
	32,977	33,873

Construction-in-progress represents the Group's factory buildings under construction and machinery pending installation. The ancillary factory buildings are located in a parcel of land which the Group has the land use rights for 40 years up to 2040 (see note 10.b(ii)).

12. INTANGIBLE ASSETS

Movements in intangible assets of the Group are as follows:

	Group	
	2002 RMB'000	2001 RMB'000
Cost		
At 1 January	1,000	1,000
Additions	4,000	—
At 31 December	5,000	1,000
Accumulated amortisation		
At 1 January	716	616
Amortisation for the year	434	100
At 31 December	1,150	716
Net book value		
At 31 December	3,850	284

Intangible assets represent exclusive rights acquired by the Group to produce and sell the products of "Plasma Capsule" and "Puli Capsule" within and outside Mainland China.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

13. INTERESTS IN SUBSIDIARIES

In the Company's balance sheet, interests in subsidiaries consists of:

	Company	
	2002 RMB'000	2001 RMB'000
Unlisted shares, at cost	57,784	57,784
Due from a subsidiary	45,101	32,816
Due to a subsidiary	(2,101)	(2,096)
	100,784	88,504

The balances with subsidiaries are unsecured, non-interest bearing, and without pre-determined repayment terms.

The underlying value of the interests in subsidiaries is, in the opinion of the Company's directors, not less than its carrying value as at 31 December, 2002.

Details of the subsidiaries as at 31 December, 2002 are as follows:

Name	Place of incorporation/ operations	Proportion of ownership interest			Issued and fully paid share capital/ registered capital	Principal activities
		Group's effective interest	held by the Company	held by subsidiary		
Garner International Investments Limited	British Virgin Islands	100%	100%	—	US\$1	Investment holding
Everpride Pharmaceutical (H.K.) Co., Ltd.	Hong Kong	100%	—	100%	HK\$100	Trading of medicines
Scylla Assets Limited	British Virgin Islands	100%	—	100%	US\$1,000	Investment holding
Shanxi Everpride Pharmaceutical Co., Ltd.*	Mainland China	100%	—	100%	US\$2,280,000	Manufacture and sales of medicines

* Shanxi Everpride Pharmaceutical Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 20 years up to 26 May, 2015.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

13. INTERESTS IN SUBSIDIARIES (Continued)

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December, 2002 (2001 — Nil).

14. INTEREST IN AN ASSOCIATE

	Group	
	2002 RMB'000	2001 RMB'000
Share of net assets	212	—
Due from an associate	15,150	—
	15,362	—

The balance with the associate is unsecured, non-interest bearing, and without pre-determined repayment term.

Details of the associate as at 31 December, 2002 are as follows:

Name	Place of incorporation/ operations	Proportion of ownership interest			Registered Capital	Principal activity
		Group's effective interest	held by the Company	held by subsidiary		
Shanxi Everpride Medical and Healthy Apparatus and Instruments Co., Ltd.*	Mainland China	20%	—	20%	RMB1,000,000	Trading of medical and health apparatus and instruments

* The associate is a private enterprise established in Mainland China to be operated for 10 years up to 2012.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

15. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2002 RMB'000	2001 RMB'000
Investment in Hong Kong unit trusts		
At 1 January	6,172	—
Additions	—	6,420
Disposals	(6,172)	—
Net loss for fair value adjustments	—	(248)
At 31 December	—	6,172

16. INVENTORIES

	Group	
	2002 RMB'000	2001 RMB'000
Raw materials	22,926	39,800
Finished goods	1,695	2,494
	24,621	42,294
Less: Provision for obsolete inventories	(246)	(423)
	24,375	41,871

Included in raw materials and finished goods are inventories of approximately RMB22,697,000 (2001 — RMB39,402,000) and RMB1,678,000 (2001 — RMB2,469,000) respectively, stated net of a general provision, made in order to state these inventories at the lower of their cost and estimate net realisable value.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

17. ACCOUNTS RECEIVABLE

Ageing analysis of accounts receivable is as follows:

	Group	
	2002 RMB'000	2001 RMB'000
0 to 30 days	4,233	1,032
31 to 60 days	10,877	1,410
61 to 90 days	5,714	3,993
91 to 180 days	27,820	11,606
181 to 365 days	12,565	1,625
Over 365 days	5,466	1,885
	66,675	21,551
Less: Provision for bad and doubtful debts	(5,217)	(821)
	61,458	20,730

The Group generally requires its customers to pay a deposit shortly before delivery of goods, with the remaining balance of the sales within credit periods ranging from 90 to 180 days.

18. DUE FROM/(TO) A DIRECTOR

Details of amount due from/(to) a director (Group) are as follows:

Name of director	2002		Maximum balance outstanding during the year	
	RMB'000	2001 RMB'000	RMB'000	2001 RMB'000
Mr. Chung Chi Mang	(276)	6,924	6,924	6,924

The balance with a director was unsecured, non-interest bearing and without pre-determined repayment terms. There was no provision made against the amount at 31 December, 2002 and 2001.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Pledged bank deposits, denominated in				
— Hong Kong dollars and United States dollars	10,860	17,120	—	17,120
Other cash and bank deposits, denominated in				
— Hong Kong dollars and United States dollars	34	10,698	9	82
— Renminbi	375	1,763	—	—
	409	12,461	9	82
Cash and cash equivalents in the balance sheets	11,269	29,581	9	17,202
Less: Bank overdraft (Note 22)	—	(900)		
Less: Pledged bank deposits	(10,860)	(17,120)		
Less: Bank deposits with original maturity over three months	—	(10,594)		
Cash and cash equivalents in the consolidated cash flow statement	409	967		

Renminbi is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China.

20. ACCOUNTS PAYABLE

Ageing analysis of accounts payable is as follows:

	Group	
	2002 RMB'000	2001 RMB'000
0 to 30 days	961	356
31 to 60 days	—	—
61 to 90 days	—	46
91 to 180 days	6	1,610
181 to 365 days	75	373
Over 365 days	274	—
	1,316	2,385

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

21. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Accrued bonus and salary payable	2,332	2,228	438	1,452
Accrued advertising expense	1,294	1,127	—	—
Accruals for other operating expenses	3,271	3,629	1,161	1,141
	6,897	6,984	1,599	2,593

22. SHORT-TERM BANK BORROWINGS, SECURED

	Group	
	2002 RMB'000	2001 RMB'000
Bank overdrafts, denominated in Hong Kong dollars	—	900
Short-term bank borrowings, denominated in Renminbi	30,000	—
	30,000	900

Short-term bank borrowings bear interest at rates of 6.37% to 7.61% (2001 — Hong Kong prime rate plus 1%) per annum.

The banking facilities of certain subsidiaries are secured by mortgages over their leasehold properties with an aggregate carrying value of approximately RMB20,445,000 (2001 — Nil) and charges over their bank deposits of approximately RMB10,860,000 (2001 — RMB17,120,000). Such banking facilities, amounting to approximately RMB30,000,000 (2001 — RMB16,050,000), were utilised to the extent of approximately RMB30,000,000 (2001 — RMB900,000) at 31 December, 2002.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

23. LONG-TERM SECURED BANK BORROWINGS

At 31 December, 2002, the long term secured bank borrowings were repayable as follows:

	Group	
	2002 RMB'000	2001 RMB'000
Within 1 year	389	—
After 1 year but within 2 years	411	—
After 2 years but within 5 years	1,380	—
After 5 years	1,056	—
	2,847	—
	3,236	—
Less: Amounts repayable within one year included under current liabilities	(389)	—
Non-current portion	2,847	—

Long-term bank borrowings bear interest at a rate of 5.58% per annum.

Long-term bank borrowings are secured by mortgages over the Group's leasehold properties with an aggregate carrying value of approximately RMB5,812,000 (2001 — Nil).

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

24. FINANCE LEASE OBLIGATION

At 31 December, 2002, the Group had an obligation under a finance lease repayable as follows:

	Group	
	2002 RMB'000	2001 RMB'000
Within one year	240	240
After one year but within two years	240	240
After two years but within five years	259	499
	739	979
Less: Amounts repayable within one year included under current liabilities	(240)	(240)
Non-current portion	499	739

The reconciliation between the total minimum lease payments and the present value of finance lease obligation is as follows:

	Group	
	2002 RMB'000	2001 RMB'000
Total minimum lease payments, repayable within a period		
— within one year	291	291
— after one year but within two years	291	291
— after two years but within five years	314	605
	896	1,187
Less: Interest portion of finance lease	(157)	(208)
Total finance lease obligation, end of year	739	979

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

25. TAX PAYABLE

	Group	
	2002 RMB'000	2001 RMB'000
Value added tax payable	26,850	15,203
Mainland China enterprise income tax payable	11,846	8,162
	38,696	23,365

26. SHARE CAPITAL

	Group and Company			
	2002		2001	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
Authorised — Ordinary shares of HK\$0.10 (equivalent to RMB0.107) each	2,000,000	214,000	2,000,000	214,000
Issued and fully paid — Ordinary shares of HK\$0.10 (equivalent to RMB0.107) each	600,000	64,200	600,000	64,200

During the year, there was no changes in the Company's authorised and issued share capital.

27. EMPLOYEE SHARE OPTIONS

The Company has adopted on 5 July, 2001 a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible employees for their contribution to the Group. Eligible employees of the Scheme include all executive directors, executives, officers and full-time employees of the Group.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

27. EMPLOYEE SHARE OPTIONS (Continued)

The exercise price of the options shall be the highest of (i) nominal amount of a share; (ii) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (iii) an amount determined by a duly authorised committee of the Board (the "Committee") in relation to each option, being not less than the arithmetical average closing price of a share as stated in the Stock Exchange's daily quotations sheet on each of the five trading days immediately preceding the date of grant of the option. The Scheme will remain valid for a period of 10 years commencing from 5 July, 2001, after which period no further options will be granted but the provisions of the Scheme shall in all other respects remain in full force and effect.

As at the date of this annual report, the total number of the shares available for issue under the Scheme is 60,000,000 shares, representing 10% (the "Scheme Mandate Limit") of the issued share capital of the Company. The Scheme Mandate Limit may be renewed by the approval of shareholders, subject to a maximum limit of 180,000,000 shares, being 30% of the total issued share capital as at the date of the listing of the shares on GEM. The maximum number of shares issuable under share options to each eligible employee is 25% of the aggregate number of shares for the time being issued or issuable under the Scheme.

During the year and as at 31 December, 2002, no eligible employee had been granted any option to subscribe for shares in the Company.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Committee to each grantee provided that the period within which the option must be exercised shall be not less than three years and not more than ten years from the date of grant of the option. The Scheme does not set a minimum period for which an option must be held before it can be exercised and it is at the discretion of the Committee to impose such a requirement. HK\$10 is payable by the eligible employee to the Company on acceptance of the option offer.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

28. RESERVES

a. The movements in the reserves of the Group are as follows:

	Share premium	Statutory reserve (note b. below)	Capital reserve (note c. below)	Exchange reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January, 2001	—	7,319	8,205	—	25,220	40,744
Issue of shares	59,171	—	—	—	—	59,171
Capitalisation of share premium	(49,220)	—	—	—	—	(49,220)
Share issuance expenses	(9,951)	—	(1,010)	—	—	(10,961)
Transfer from retained profits to statutory reserve	—	1,706	—	—	(1,706)	—
Exchange adjustments	—	—	—	(96)	—	(96)
Profit attributable to shareholders	—	—	—	—	17,051	17,051
At 31 December, 2001 and 1 January, 2002	—	9,025	7,195	(96)	40,565	56,689
Profit attributable to shareholders	—	—	—	(1)	2,403	2,402
At 31 December, 2002	—	9,025	7,195	(97)	42,968	59,091

Included in the figure for the retained profit is an amount of approximately RMB12,000 (2001 — Nil), being the retained profit attributable to the associate.

b. Statutory reserves

The statutory reserve as at 31 December, 2002 represents general reserve fund of Shanxi Everpride of approximately RMB9,025,000 (2001 — RMB9,025,000), which can only be used, upon approval by the relevant authority, to offset prior years' losses or to increase capital.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

28. RESERVES (Continued)

b. Statutory reserves (Continued)

As stipulated by the rules and regulations in Mainland China, foreign investment enterprises are required to appropriate part of their after-tax profit (after offsetting prior years' losses) to certain statutory reserves. Shanxi Everpride, as a wholly foreign owned enterprise established in Mainland China, is required to appropriate 10% of its after-tax profit (after offsetting prior years' losses) to a general reserve fund until the balance of the fund reaches 50% of its registered capital and thereafter any further appropriation is optional and is determinable by its board of directors.

During the year ended 31 December, 2001, the board of directors of Shanxi Everpride resolved to appropriate its after-tax profit to the general reserve fund amounting to approximately RMB1,076,000. Thereafter, the general reserve fund of Shanxi Everpride reached 50% of its registered capital in 2001.

During the year ended 31 December, 2002, the board of directors of Shanxi Everpride resolved not to appropriate its after-tax profit to the general reserve fund. It is because the general reserve fund of Shanxi Everpride has reached 50% of its registered capital and no further appropriation is necessary unless there is an increase in the amount of its registered capital.

c. Capital reserve

Capital reserve represents the difference between the aggregate nominal value of the share capital issued by the Company and the aggregate nominal amount of the issued share capital of subsidiaries acquired by the Company through an exchange of shares.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

28. RESERVES (Continued)

d. The movements in the reserves of the Company are as follows:

	Share premium	Contributed surplus (note e. below)	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January, 2001	—	—	(2,211)	(2,211)
Effect of the Reorganisation (note 1)	—	57,784	—	57,784
Premium on issue of shares	59,171	—	—	59,171
Share issuance expenses	(9,951)	(1,010)	—	(10,961)
Capitalisation of share premium	(49,220)	—	—	(49,220)
Loss attributable to shareholders	—	—	(8,861)	(8,861)
Balance as at 31 December, 2001	—	56,774	(11,072)	45,702
Loss attributable to shareholders	—	—	(10,688)	(10,688)
Balance as at 31 December, 2002	—	56,774	(21,760)	35,014

As at 31 December, 2002, the Company's reserve available for distribution to shareholders amounted to approximately RMB35,014,000 (2001 — RMB45,702,000) computed in accordance with the Companies Law (2000 Revision) of the Cayman Islands and the Company's articles of association. This includes the Company's contributed surplus of approximately RMB56,774,000 (2001 — RMB56,774,000), less accumulated losses of approximately RMB21,760,000 (2001 — RMB11,072,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

28. RESERVES (Continued)

- e. The contributed surplus of the Company represents the difference between the aggregate nominal value of the share capital issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares.

Under the Companies Law (2000 Revision) of the Cayman Islands, contributed surplus is distributable to shareholders, subject to condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby less than the aggregate of its liabilities and its issued share capital account.

29. PENSION SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme administered by an independent trustee. Under the MPF Scheme, the employer and its employees are required to make monthly contributions to the MPF Scheme at 5% of the employees' relevant income, subject to a monthly contribution cap of HK\$1,000 (equivalent to RMB1,070) per month and thereafter contributions are voluntary.

As stipulated by the rules and regulations in Mainland China, Shanxi Everpride Pharmaceutical Co., Ltd., a subsidiary established in Mainland China, is required to contribute to a state-sponsored retirement plan for all of its employees at approximately 17% of the basic salary of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

For the year ended 31 December, 2002, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately RMB965,000 (2001 — RMB680,000) which was included in the staff costs.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

30. COMMITMENTS

a. Capital commitments

Capital commitments outstanding at 31 December, 2002 not provided for in the financial statements were as follows:

	Group	
	2002 RMB'000	2001 RMB'000
Acquisition of machinery and equipment	3,669	2,046
Construction of ancillary factory buildings	5,021	438
	8,690	2,484

b. Operating lease commitments

At 31 December, 2002, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group	
	2002 RMB'000	2001 RMB'000
Within one year	2,332	829
After one year but within five years	2,398	932
	4,730	1,761

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

31. SEGMENT INFORMATION

Analysis by geographical segment is as follows:

a. Analysis by geographical segment, based on location of assets, is as follows:

	2002			Total RMB'000
	Hong Kong RMB'000	Mainland China RMB'000	Elimination RMB'000	
TURNOVER				
Sales to external customers	—	73,062		73,062
OPERATING RESULTS				
Segment results	(14,567)	21,481		6,914
Profit on sales of available-for-sale investments	140	—		140
Interest expense	(165)	(1,351)		(1,516)
Interest income	199	338		537
Share of result of an associate	—	18		18
Taxation	—	(3,690)		(3,690)
Profit/(loss) attributable to shareholders	(14,393)	16,796		2,403
Depreciation and amortisation	324	2,523		2,847
OTHER INFORMATION				
Segment assets	28,648	218,836	(32,778)	214,706
Segment liabilities	(9,299)	(114,894)	32,778	(91,415)
Capital expenditure	18	27,659		27,677

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

31. SEGMENT INFORMATION (Continued)

	2001			Total RMB'000
	Hong Kong RMB'000	Mainland China RMB'000	Elimination RMB'000	
TURNOVER				
Sales to external customers	675	106,624		<u>107,299</u>
OPERATING RESULTS				
Segment results	(14,229)	39,648		25,419
Interest expense	(47)	(661)		(708)
Interest income	213	289		502
Taxation	—	(8,162)		<u>(8,162)</u>
Profit attributable to shareholders	<u>(14,063)</u>	<u>31,114</u>		<u>17,051</u>
Depreciation and amortisation	<u>195</u>	<u>1,531</u>		<u>1,726</u>
OTHER INFORMATION				
Segment assets	<u>42,686</u>	<u>143,573</u>	<u>(16,155)</u>	<u>170,104</u>
Segment liabilities	<u>(8,942)</u>	<u>(56,428)</u>	<u>16,155</u>	<u>(49,215)</u>
Capital expenditure	<u>1,692</u>	<u>32,615</u>		<u>34,307</u>

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

31. SEGMENT INFORMATION (Continued)

- b. Analysis of turnover and contribution to profit from operations by geographical location of customers is as follows:

	2002		2001	
	Turnover* RMB'000	Contribution to profit from operations RMB'000	Turnover* RMB'000	Contribution to profit from operations RMB'000
Mainland China	71,888	6,713	72,121	17,085
Hong Kong	—	170	23,596	5,590
Malaysia	348	3	—	—
Philippines	—	—	11,582	2,744
Others	826	28	—	—
	73,062	6,914	107,299	25,419

* Turnover by geographical location is determined on the basis of the destination of shipment of goods.

No segment information by business segments is presented as the Group operates in one single industry of the medicines.

32. FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and bank deposits, accounts receivable, deposits and other current assets, short-term bank borrowings and accounts payable approximate their fair values because of the short maturity of these instruments.

There is no quoted market price for the Company's investments in unlisted subsidiaries and other methods of reasonably estimating its fair value are clearly inappropriate or unworkable.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

33. RISK MANAGEMENT OBJECTIVES AND POLICIES

a. Credit risk

The Group's accounts receivable relate to sales of goods to third parties. The Group performs ongoing credit evaluation of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains a provision for doubtful debts and actual losses have been within management's expectations. As at 31 December, 2002, the Group's five largest accounts receivable accounted for approximately 63% of the Group's total accounts receivable.

No other financial assets carry a significant exposure to credit risk.

b. Economic risk

The Group's operations may be adversely affected by significant political, economic and social uncertainties in Mainland China. Although the Mainland China government (the Government of the People's Republic of China) has been pursuing economic reform policies for the past years, no assurance can be given that the Mainland China government will continue to pursue such policies or that such policies may not be significantly altered.

c. Currency risk

A substantial portion of the Group's revenue-generating operations and its expenses are transacted in Renminbi, the exchange rate of Renminbi is determined by a single rate of exchange quoted by the People's Bank of China and Renminbi is not freely convertible into foreign currencies.

d. Business risk

A substantial portion of the Group's operations is conducted in Mainland China. This includes risks associated with, among others, the political, economic and legal environment in Mainland China.

e. Interest rate risk

The interest rates of bank borrowings of the Group are disclosed in notes 22 and 23.

Notes to the Financial Statements

(Amounts expressed in Renminbi unless otherwise stated)

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

35. ULTIMATE HOLDING COMPANY

The Directors of the Company consider Montgomery Properties Holding Limited (formerly known as Montgomery Property Limited), a company incorporated in the British Virgin Islands, to be the ultimate holding company.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an annual general meeting of Everpride Biopharmaceutical Company Limited (the "Company") will be held at Unit 3105, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong on 30 April, 2003 at 10:00 a.m. for the following purposes:

1. to receive and adopt the audited consolidated financial statements of the Company and the reports of the Directors and of the auditors for the year ended 31 December, 2002.
2. to re-elect the retiring Directors and to authorise the Board of Directors to fix the Directors' remuneration.
3. to re-appoint the auditors and to authorise the Board of Directors to fix their remuneration.
4. as special business, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

A. "THAT:

- (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period (as defined in paragraph (d)) of all the powers of the Company to allot or issue securities of the Company including shares of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements or options, including warrants to subscribe for shares, which might require securities to be issued, allotted or disposed of be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options, including warrants to subscribe for shares, which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to a Rights Issue (as defined in paragraph (d)) or any issue of shares of the Company on the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time or on the exercise of any options granted under the share option scheme of the Company or an issue of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company, shall

Notice of Annual General Meeting

not exceed the aggregate of 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; and
- (iii) the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (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, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

B. **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as defined in paragraph (c)) of all the powers of the Company to repurchase its securities (including shares of HK\$0.10 each) on the GEM of the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose subject to and in accordance with all applicable laws and/or the requirements of the Stock Exchange or of any other stock exchange as amended from time to time be and is hereby generally and unconditionally approved;

Notice of Annual General Meeting

(b) the aggregate nominal amount of securities authorised to be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution and the said approval shall be limited accordingly; and

(c) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; and

(iii) the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution.”

C. “**THAT** conditional on the passing of the resolutions Nos. 4A and 4B, the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot or issue additional securities and to make or grant offers, agreements and options pursuant to the resolution No. 4A be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution No. 4B, provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution.”

By Order of the Board
EVERPRIDE BIOPHARMACEUTICAL COMPANY LIMITED
Chung Chi Mang
Chairman

Hong Kong, 26 March, 2003

Notice of Annual General Meeting

Head Office and Principal Place of Business:

Unit 3105, Sino Plaza
255-257, Gloucester Road
Causeway Bay
Hong Kong

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, subject to the provisions of the Articles of Association of the Company, vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power of attorney or authority must be deposited at the Company's Hong Kong branch share registrar, Abacus Share Registrars Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
3. For the purpose of determining the identity of members who are entitled to attend and vote at the above meeting, the register of members of the Company will be closed from 28 April, 2003 to 30 April, 2003 (both dates inclusive) during which period no transfer of shares will be registered. All properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Abacus Share Registrars Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 25 April, 2003.
4. Regarding resolution No. 4B above, a circular containing a summary of the more important provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange relating to the repurchase of the securities on the Stock Exchange will be despatched to the shareholders together with the annual report containing this notice.