



FIRST QUARTER REPORT 2003



EVERPRIDE BIOPHARMACEUTICAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

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HIGHLIGHTS

- Turnover of the Group for the three months ended 31 March, 2003 was approximately RMB4,298,000, representing a decrease of approximately 47 per cent. as compared with that of the corresponding period in 2002.
- Loss attributable to shareholders of the Group for the three months ended 31 March, 2003 and 2002 was approximately RMB4,276,000 and RMB6,683,000 respectively.
- Loss per share of the Company was approximately RMB0.71 cents.
- The Directors do not recommend payment of any interim dividend for the three months ended 31 March, 2003.

UNAUDITED CONSOLIDATED RESULTS

The board of Directors (the “Board”) announces the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the period ended 31 March, 2003, (the “Period”) together with the comparative unaudited figures for the period ended 31 March, 2002, as follows:—

	Note	For the three months ended 31 March,	
		2003 RMB'000	2002 RMB'000
Turnover	2	4,298	8,054
Cost of sales		(802)	(1,710)
Gross profit		3,496	6,344
Other revenue		122	163
Selling and distribution expenses		(2,803)	(6,455)
General and administrative expenses		(4,411)	(6,563)
Loss from operations		(3,596)	(6,511)
Finance costs		(690)	(172)
Share of result of an associate		14	—
Loss from ordinary activities before taxation		(4,272)	(6,683)
Taxation	3	(4)	—
Loss attributable to shareholders		(4,276)	(6,683)
Loss per share — Basic	4	RMB0.71 cents	RMB1.11 cents

Notes:—

1. Basis of preparation

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.

The accompanying results have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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. The accounting policies adopted are consistent with those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December, 2002.

2. Turnover

The Company is an investment holding company and the Group is principally engaged in the manufacture and sales of medicines in Mainland China. Turnover represents the sales value of goods supplied to customers (which exclude value added tax) and is stated after deduction of all goods returns and trade discounts.

3. Taxation

Taxation in the unaudited consolidated results represents:—

	For the three months ended 31 March,	
	2003 RMB '000	2002 RMB '000
Share of taxation of an associate in Mainland China	4	—

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.

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit in Hong Kong.

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 for 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. No provision for Mainland China enterprise income tax has been made as Shanxi Everpride had no assessable profit in Mainland China during the Period.

4. Loss per share

The calculation of basic loss per share for the Period is based on the loss attributable to shareholders of approximately RMB4,276,000 (2002 — RMB6,683,000) and the weighted average of 600,000,000 (2002 — 600,000,000) ordinary shares in issue during the Period.

Diluted earnings per share are not presented because there were no dilutive potential ordinary shares in existence during the Period (2002 — Nil).

5. Reserves

Movements in the reserves of the Group were as follows:—

	For the three months ended 31 March,						2002
	2003						Total RMB'000
	Share premium RMB'000	Statutory reserve ^(a) RMB'000	Capital reserve ^(b) RMB'000	Exchange reserve RMB'000	Retained profit RMB'000	Total RMB'000	
At 1 January, 2003	—	9,025	7,195	(97)	42,968	59,091	56,869
Loss attributable to shareholders	—	—	—	—	(4,276)	(4,276)	(6,683)
At 31 March, 2003	—	9,025	7,195	(97)	38,692	54,815	50,186

Included in the figure for retained profit is an amount of RMB21,000 (2002 — Nil), being the retained profit attributable to the associate.

a. *Statutory reserves*

The statutory reserve as at 31 March, 2003 represents general reserve fund of Shanxi Everpride of approximately RMB9,025,000 (2002 — RMB9,025,000), which can only be used, upon approval by the relevant authority, to offset prior years' losses or to increase capital.

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, 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 had reached 50% of its registered capital and no further appropriation is necessary unless there is an increase in the amount of its registered capital.

b. *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.

6. Dividends

The Directors do not recommend payment of any interim dividend for the Period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

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.

During the Period under review, the Group recorded an unaudited consolidated turnover of approximately RMB4,298,000 (2002 — RMB8,054,000), which represented a substantial decrease of approximately 47 per cent. as compared with that of the corresponding period in 2002. The Group's unaudited consolidated loss attributable to shareholders for the Period reduced to approximately RMB4,276,000 (2002 — RMB6,683,000), which represented a substantial decrease of approximately 36 per cent. as compared with that of the corresponding period in 2002. This is due to a substantial decrease in advertising expenses during the Period. During the Period, 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 2002 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.

Sales and Marketing

Due to the successful introduction of “Puli Capsule” into Mainland China market in 2002, it has made contributions to the Group. The sales of “Puli Capsule” were approximately RMB3,130,880, representing approximately 73 per cent. of the whole turnover of the Group during the Period. During the Period 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” of approximately RMB1,167,286 for the Period, representing approximately 27 per cent. of the whole turnover of the Group during the Period.

In response to the regulatory changes introduced by the SDA as mentioned above, 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 Period 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 2002 for clinical trial approval. Up to the date of this announcement, 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.

Application for “GMP” certificate for the Group’s production complex

The application for the GMP certification for the production complex of the Group 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 strongly affect adversely the future earnings and prospects of the Group. Furthermore, the widespread public concerns over the outbreak of severe acute respiratory syndrome (the "SARS") in Mainland China, especially in Shanxi province where the GMP-compliant factory and sales head office of the Group are located, will add more adverse effects on the operations and uncertainty to the future sales of the Group, unless the SARS can be fully controlled within a short period of time.

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.

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.

OTHER INFORMATION

Directors' and chief executives' interests in securities

As at 31 March, 2003, 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:*—

Name of Director	Corporate Interests	Personal/ Family/Other Interest	Total	Approximate Percentage of Issued Shares
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 March, 2003, any interests in securities of the Company and any of 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 March, 2003, 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 March, 2003, 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.

Substantial shareholders

As at 31 March, 2003, 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:—

Name	Number of Shares	Approximate Percentage of Holding
Montgomery Properties Holding Limited (<i>Note</i>)	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 Period or at any time during the Period.

Sponsor's interests

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

Save as disclosed herein, none of Asia Investment Capital Limited, 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 March, 2003.

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 one time during the Period. The Group's unaudited consolidated results for the Period 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 monitoring 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 Period, 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 the 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 Period.

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 Period.

By order of the Board

Everpride Biopharmaceutical Company Limited

Chung Chi Mang

Chairman

Hong Kong, 13 May, 2003