

3rd QUARTER REPORT 2004



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

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability.

Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. 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 at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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

This report, for which the directors (the “Directors”) of Everpride Biopharmaceutical Company Limited (the “Company”) 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 of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover of the Group for the nine months ended 30 September 2004 was approximately RMB22,290,000, representing an increase of approximately 36 per cent. as compared with that of the corresponding period in 2003.
- Loss attributable to shareholders for the nine months ended 30 September 2004 was approximately RMB3,853,000.
- Loss per share was approximately RMB0.64 cents.
- The Directors do not recommend the payment of any interim dividend for the nine months ended 30 September 2004.

UNAUDITED CONSOLIDATED RESULTS

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the nine months ended 30 September 2004 (the “Period”), together with the comparative unaudited figures for the nine months ended 30 September 2003, as follows:

Consolidated Income Statement

	Note	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	2	22,290	16,407	7,475	7,169
Cost of sales		(2,027)	(2,945)	(689)	(1,356)
Gross profit		20,263	13,462	6,786	5,813
Other revenue		925	526	451	162
Selling and distribution expenses		(10,612)	(11,644)	(4,129)	(4,265)
General and administrative expenses		(12,350)	(34,110)	(3,390)	(17,585)
Loss from operations		(1,774)	(31,766)	(282)	(15,875)
Finance costs		(2,079)	(2,497)	(593)	(919)
Share of result of an associate		—	(38)	—	—
Loss from ordinary activities before taxation		(3,853)	(34,301)	(875)	(16,794)
Taxation	3	—	13	—	—
Loss attributable to shareholders		(3,853)	(34,288)	(875)	(16,794)
Loss per share — Basic	4	RMB(0.64) cents	RMB(5.71) cents	RMB(0.14) cents	RMB(2.80) cents

Notes:

1. Basis of presentation and principal accounting policies

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 unaudited consolidated results have been prepared in accordance with International Financial Reporting Standards 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 2003.

2. Turnover and segment information

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 excludes value added tax) and is stated after deduction of all goods returns and trade discounts.

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) *Business segment*

Throughout the Period, the Group has been operating in a single business segment, i.e. the manufacture and sales of medicines. Accordingly, no business segment information is presented.

(b) *Geographical segment*

As the Group's revenue and results were substantially derived from Mainland China and its operating assets and liabilities are also based in Mainland China, no geographical segment information is presented.

3. Taxation

Taxation in the unaudited consolidated results represents:

	Nine months ended 30 September	
	2004 RMB'000	2003 RMB'000
Share of taxation of an associate	—	13

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 during the Period.
- 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. No provision for Mainland China enterprise income tax has been made as Shanxi Everpride had prior years' losses brought forward to offset the estimated assessable profit in Mainland China during the Period.

4. Loss per share

The calculation of basic loss per share for the nine months and three months ended 30 September 2004 is based on the loss attributable to shareholders of approximately RMB3,853,000 and RMB875,000 (2003: loss of approximately RMB34,288,000 and RMB16,794,000), respectively, and on the weighted average number of 600,000,000 (2003: 600,000,000) ordinary shares in issue during the Period.

Diluted loss per share for the nine months and three months ended 30 September 2004 and 2003 are not presented as there were no dilutive potential ordinary shares in existence during such periods.

5. Reserves

There were no movements in reserves of the Group during the Period other than loss attributable to shareholders of approximately RMB3,853,000 (2003: loss of approximately RMB34,288,000).

6. Dividend

The Directors do not recommend the payment of any interim dividend for the Period (2003: Nil).

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 RMB22,290,000 (2003: RMB16,407,000), which represented an increase of approximately 36 per cent. as compared with that of the corresponding period in 2003. The Group's unaudited consolidated loss attributable to shareholders for the Period was approximately RMB3,853,000 (2003: loss attributable to shareholders of approximately RMB34,288,000). The decrease in loss for the Period is due to the reduction in provision for bad and doubtful debts.

"Plasmin Capsule" which is classified as a prescription medicine and its sales are limited to hospitals which is a relatively weak market for the Group. "Puli Capsule" which is classified as an over-the-counter ("OTC") medicine which has been the major market for the Group in Mainland China. The increase in turnover during the Period was due to the substantial increase in the sales of "Puli Capsule" which outweighed the decrease in the sales of "Plasmin Capsule".

Sales and Marketing

Due to the increase in the public awareness and acceptance of "Puli Capsule", its contributions to the Group became more significant during the Period. The sales of "Puli Capsule" was approximately RMB21,189,000 (2003: RMB13,902,000), representing approximately 95 per cent. of the consolidated turnover of the Group during the Period. Facing strict competition and adverse market conditions in the pharmaceutical industry in Mainland China, the Group recorded a turnover from the sales of "Plasmin Capsule" of approximately

RMB1,101,000 (2003: RMB2,505,000), representing approximately 5 per cent. of the consolidated turnover of the Group during the Period.

In order to improve the sales of “Plasmin Capsule”, the Group will continue to focus more on developing the prescription medicine market through doctors in hospitals. Besides, the Group will put more efforts in mass media advertising to further promote the sales of “Puli Capsule” through the OTC medicine market.

According to the document issued by the State Labour and Social Security of the People’s Republic of China on 13 September 2004, the major ingredient of “Puli Capsule”, Glucosamine, has been included in the State Basic Medical Insurance and Labour Insurance Drug Catalog. Therefore, the expenses incurred for the purchase of “Puli Capsule” can be claimed against insurance fund thereafter. This makes the sales of “Puli Capsule” in the market becoming more favourable.

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 State Drug Administration of the People’s Republic of China (“SDA”) in 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 continuous requests for additional information by the SDA.

Introduction of “Plasmin Tablet”

The Group is now developing an alternative to “Plasmin Capsule” known as “Plasmin Tablet”. The prescription and the principal effect of “Plasmin Tablet” are the same as those of “Plasmin Capsule” but with the advantages of avoiding breakage and being humidified, thus with a higher stability. The waiver for clinical research of “Plasmin Tablet” was obtained from the SDA on 14 January 2004 and the application for production is expected to be completed in the fourth quarter of 2004.

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.

In order to improve the market share of the Group’s products, the Group will continue to engage in research work so as to develop new products and to improve the quality of existing products. The Directors believe that the introduction of “Plasmin Tablet” will help the Group in developing the prescription medicine market which in turns enhancing the recognition of the Group and its products. Together with Staphylokinese Project if once approved and introduced into the market, the income base of the Group will be broadened and the turnover and operating results will be improved.

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 minimise the performance risk of the Group.

OTHER INFORMATION

Directors' and chief executives' interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations

As at 30 September 2004, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity/ Nature of interest	No. of shares (Note 1)	Approximate percentage of interest
Mr. Chung Chi Mang ("Mr. Chung")	Interest of a controlled corporation	234,000,000 (L) (Note 2)	39.00%

Notes:

1. The letter "L" denotes a long position in shares.
2. These shares are beneficially owned by Montgomery Properties Holding Limited (formerly known as Montgomery Property Limited). By virtue of his 100% shareholding in Montgomery Properties Holding Limited, Mr. Chung is deemed or taken to be interested in the 234,000,000 shares owned by Montgomery Properties Holding Limited.

Save as disclosed above, as at 30 September 2004, none of the Directors or chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders of other members of the Group

So far as known to any Director or chief executive of the Company, as at 30 September 2004, persons who have interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity/ Nature of interest	No. of shares	Approximate percentage of interest
Mr. Chung (<i>Note 1</i>)	Interest of a controlled corporation	234,000,000 (L)	39.00%
Ms. Ma Wai (<i>Note 2</i>)	Interest of spouse	234,000,000 (L)	39.00%
Montgomery Properties Holding Limited	Beneficial owner	234,000,000 (L)	39.00%

Notes:

1. Mr. Chung is deemed or taken to be interested in these shares which are beneficially owned by his wholly owned company, namely Montgomery Properties Holding Limited for the purpose of the SFO.
2. Ms. Ma Wai is the wife of Mr. Chung and is deemed to be interested in the 234,000,000 shares in which Mr. Chung is deemed or taken to be interested for the purpose of the SFO.

Save as disclosed above, as at 30 September 2004, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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 30 September 2004, 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 30 September 2004, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executives of the Company 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, chief executives 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.

Competing interest

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

Audit committee

The Company established an audit committee in July 2001 with terms of reference in compliance with Rules 5.28 to 5.33 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. Chau On Ta Yuen (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 three times 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 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.

Outstanding appointment of independent non-executive director and audit committee member

As at the date of this report, the Company has only two independent non-executive directors and audit committee members. Thus, the Company is temporarily unable to strictly comply with the relevant Rules 5.05 and 5.28 of the GEM Listing Rules requiring the Company to retain at all times a minimum of three independent non-executive directors and audit committee members.

The Company will continue to pay effort in negotiating with several potential candidates and expects that the new appointment can be finalised very soon in order to re-comply with the relevant requirements.

Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the Period.

Code of conduct regarding directors' securities transactions

For the Period under review, the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, the Directors have complied with the required standard of dealings and the code of conduct regarding directors' securities transactions for the Period under review.

Board practices and procedures

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the Period under review.

By Order of the Board
Everpride Biopharmaceutical Company Limited
Chung Chi Mang
Chairman

Hong Kong, 10 November 2004