ANNUAL REPORT 2004

Everpride Biopharmaceutical Company Limited

(Incorporated in the Cayman Islands with limited liability)

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This annual 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 annual 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 annual report misleading; and (iii) 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)*
Zhong Zhi Gang
Xie Xiaodong
Mu Yong

Independent Non-Executive Directors
Chau On Ta Yuen
Ho Leong Leong, Lawrence
Lam Man Sum, Albert

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lau Lai Chi, CPA, ACCA

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

CCIF CPA Limited
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

COMPLIANCE OFFICER

Chung Chi Mang

AUTHORISED REPRESENTATIVES

Chung Chi Mang
Lau Lai Chi

SOLICITOR

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

Butterfield Bank (Cayman) Limited
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 Mainland China
Hua Xia Bank
Bank of China

GEM STOCK CODE

8019

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 of the Group for the year ended 31 December 2004.

The year of 2004 was a recovering year in terms of the fair operating results recorded by the Group. Turnover for the year was approximately RMB44,160,000, which represented an increase of approximately 66 per cent. as compared with that of 2003. Together with the decrease in advertising expenses, write-back of provision for bad and doubtful debts and write-back of provision for obsolete inventories, the Group recorded a profit for the year of approximately RMB539,000. However, the strict control and restrictions on the medicine advertising campaigns and channels imposed by the government authorities in Mainland China still strongly limited the Group's sales and promotion activities, thus inhibited the market penetration of the Group's products.

The sales of "Puli Capsule" continued to increase during the year. This is due to the fact that "Puli Capsule" is an over-the-counter ("OTC") medicine which has been the major market for the Group in Mainland China. Thus, the public awareness and acceptance of "Puli Capsule" has been enhanced. Besides, Glucosamine, the major ingredient of "Puli Capsule", has been included in the State Basic Medical Insurance and Labour Insurance Drug Catalog. This further stimulates the sales of "Puli Capsule" as the expenses incurred for the purchase of "Puli Capsule" can be claimed against insurance fund.

In order to improve the operation results, the Group will continue to engage in research work so as to develop new products and to improve the quality of existing products, such as the Staphylokinese Project and "Plasmin Tablet", both are expected to be introduced into the market in the second half of year 2005. With the increase in the variety of products, the advertising and promotion activities will be more cost effective and the market share of the Group's products will be improved. In addition, the Group will continue to look for other new investment and cooperation opportunities so as to broaden the income base and to strengthen the profitability, as well as minimising the performance risk of the Group.

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 and auditors for their trust and support to the Group.

Chung Chi Mang
Chairman

Hong Kong, 24 March 2005

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.

"Plasmin Capsule" is classified as a "State Class 2 Protected Product of Chinese Medicine" and is entitled to an administrative protection period of seven years commencing from 28 September 1999 and expiring on 27 September 2006. "Puli Capsule" is classified as a "State Class 4 Protected Product of Chemical Medicine" and is entitled to an administrative protection period of six years commencing from 23 July 2002 and expiring on 22 July 2008. During the corresponding administrative protection periods, the prescription and the production technology used by the Group in producing "Plasmin Capsule" and "Puli Capsule" are protected and no other manufacturers in Mainland China may produce or imitate these two products in Mainland China.

According to the clinical studies conducted by medical institutions in Mainland China, "Plasmin Capsule" has the principal effect of resolving blood clots and may be used for treatment of cardiovascular and cerebrovascular diseases, while "Puli Capsule" has the principal effect of treating osteoarthritis. Both products are manufactured in the Group's production complex in Taigu County, Shanxi Province, which has already obtained the Good Manufacturing Practices ("GMP") certificate on 28 February 2003.

During the year under review, the Group recorded an audited consolidated turnover of approximately RMB44,160,000 (2003: RMB26,645,000), which represented an increase of approximately 66 per cent. as compared with that of 2003. The Group's audited consolidated profit attributable to shareholders for the year was approximately RMB539,000 (2003: loss attributable to shareholders of approximately RMB117,114,000). This is due to a decrease in advertising expenses, write-back of provision for bad and doubtful debts and write-back of provision for obsolete inventories.

In view of the continuous recovery and improvement in the economic condition, business activities in Mainland China grew up gradually during the year. Thus, the financial positions of some major sales agents of the Group were not as tight as last year. Together with the increasing effort in chasing long outstanding debts, several debts which had been provided as bad and doubtful debts in last year have been recovered successfully during the year. As a result, a write-back of provision for bad and doubtful debts was made during the year.

In addition, as the sales of "Plasmin Capsule" has improved a little bit during the year, the Group has used up certain "Plasmin Capsule" and its raw materials on hand, which had been provided as obsolete inventories in last year. The Directors expect that the introduction of "Plasmin Tablet", which is now under development and in the process of application for production, will further utilise part of the raw materials. As a result, a small write-back of provision for obsolete inventories was made during the year.

During the year, the Group has only two medicines under production and sales: one is "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; the other is "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 year was due to the substantial increase in the sales of "Puli 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 year. The sales of "Puli Capsule" was approximately RMB40,072,000 (2003: RMB23,823,000), representing approximately 91 per cent. of the consolidated turnover of the Group during the year. 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 RMB4,088,000 (2003: RMB2,822,000), representing approximately 9 per cent. of the consolidated turnover of the Group during the year.

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 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 State Drug Administration of the People's Republic of China ("SDA") in 2002 for clinical trial approval. Up to the date of this annual 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 Mid-2005.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations through internally-generated cash flows and banking facilities provided by its principal bankers. As at 31 December 2004, the Group had cash and cash equivalents amounting to approximately RMB812,000 (2003: RMB11,142,000). With the limited available resources and due to the fair operating results during the year, the Directors expected that the Group might depend on further financing from its shareholders and bankers to finance its business operations and to achieve its business objectives.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company during the year.

CHARGES ON GROUP ASSETS

As at 31 December 2004, certain leasehold properties and construction in progress with an aggregate carrying amounts of approximately RMB20,500,000 (2003: RMB26,454,000) and RMB32,840,000 (2003: RMB32,160,000) respectively were pledged as collateral for the Group's bank borrowings.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs cost in Renminbi and its borrowings are denominated in Renminbi. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

SIGNIFICANT INVESTMENTS

The Group had no significant investments during the year.

MATERIAL ACQUISITIONS 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 about 110 employees working in Hong Kong and in 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 RMB7,422,000 for the year under review (2003: RMB12,493,000).

GEARING RATIO

As at 31 December 2004, the Group's gearing ratio, being the ratio of total liabilities to total assets, was 94 per cent. (2003: 95 per cent.).

CONTINGENT LIABILITIES

As at 31 December 2004, the Group had no contingent liabilities (2003: Nil).

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.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Chung Chi Mang, age 43, 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 Shanxi Everpride Pharmaceutical Co., Ltd. ("Shanxi Everpride") 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 and a director of the Old Aged Foundation of China.

Mr. Zhong Zhi Gang, age 42, is an executive Director and a deputy general manager of Shanxi Everpride. 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 Shanxi Everpride in charge of the sales of medicines. In November 1999, Mr. Zhong became a director of Shanxi Everpride. Mr. Zhong is experienced in the sales, distribution and promotion of medical and healthcare products in Mainland China. Mr. Zhong is the brother of Mr. Chung Chi Mang.

Mr. Xie Xiaodong, age 55, is an executive Director and a deputy general manager of Shanxi Everpride. Mr. Xie has been engaged in the sales of medical and healthcare products outside Mainland China 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 Shanxi Everpride.

Mr. Mu Yong, age 46, is an executive Director of the Company and assists in the formulation of the overall business strategies and development. Mr. Mu graduated from Tianjin City Nankai District Staff Leisure University, majoring in Chinese language and literature. Prior to joining the Group in March 2004, Mr. Mu held management positions with enterprises in Mainland China and has gained extensive experience in investment, business development and corporate management.

Independent Non-executive Directors

Mr. Chau On Ta Yuen, age 57, was appointed as an independent non-executive Director of the Company on 5 June 2003. Mr. Chau graduated from Xiamen University, majoring in Chinese language and literature. Mr. Chau is the vice chairman and an executive director of Everbest Century Holdings Limited which is listed on the Main Board of the Stock Exchange of Hong Kong Limited. He is also a member of the Chinese People's Political Consultative Conference of the People's Republic of China.

Mr. Ho Leong Leong, Lawrence, age 54, was appointed as an independent non-executive Director of the Company on 8 November 2002. Mr. Ho is a famous commentator on current affairs and the deputy director of editorial department of Phoenix Satellite Television Holdings Limited.

Mr. Lam Man Sum, Albert, aged 49, was appointed as an independent non-executive Director of the Company on 18 February 2005. Mr. Lam has been the sole proprietor of Albert Lam & Co. CPA since 1993 and the director of Hopkins CPA Ltd. since 2004. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, a member of the Hong Kong Securities Institute, the Society of Chinese Accountants and Auditors and the Taxation Institute of Hong Kong. He holds a Bachelor of Arts (Economic) Degree from the University of Manchester, United Kingdom.

Senior Management

Mr. Shan Bingwei, age 50, is a deputy general manager of Shanxi Everpride. 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 Shanxi Everpride.

Ms. Wang Shulan, age 65, is a deputy general manager and the chief engineer of Shanxi Everpride. 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 Shanxi Everpride 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, a director of the Shanxi Institute of Pharmacy and a director of the Taiyuan Institute of Pharmacy.

Mr. Hou Naigong, age 54, is a deputy general manager of Shanxi Everpride. 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 Shanxi Everpride as a deputy general manager in charge of the production of "Plasmin Capsule".

Mr. Qiu Shou Peng, age 63, is a deputy general manager of Shanxi Everpride and is responsible for the overall operation and management of the production complex in Taigu County, Shanxi Province. Mr. Qiu graduated from the chemistry department of Beijing University. Prior to joining the Group, Mr. Qiu worked for Shanxi Taiyuan Chemical Factory as the head of the Factory and Shanxi Taiyuan Chemical Group Company as the vice-chairman. Mr. Qiu has extensive experience in corporate management.

Mr. Wang Hong Yong, age 35, is the financial controller of Shanxi Everpride and is in charge of the overall accounting and finance matters. Mr. Wang graduated from the accounting and statistics department of Shanxi Economics Management College and is a certified public accountant and a certified tax accountant in Mainland China. Prior to joining the Group in July 2003, Mr. Wang engaged in auditing in certified public accounting firms in Mainland China for several years and has gained extensive experience in finance and auditing.

Directors and Senior Management Profiles

Mr. Lau Lai Chi, age 32, is the company secretary and financial controller of the Group. Mr. Lau is the associate members of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Lau joined the Group in October 2003 and has extensive experience in accounting and financial management.

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 2004.

BASIS OF PRESENTATION

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 (the "Stock Exchange") since 20 July 2001.

The consolidated financial statements 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 basis of preparation of the financial statements is set out in Note 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 15 and 16 to the accompanying consolidated financial statements, respectively.

An analysis of the principal activities and geographical locations of operations of the Group for the year ended 31 December 2004 is set out in Note 4 to the accompanying consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2004, the five largest customers accounted for approximately 61 per cent. of the Group's total turnover. The five largest suppliers accounted for approximately 85 per cent. of the Group's total purchases. In addition, the largest customer accounted for approximately 17 per cent. of the Group's total turnover while the largest supplier accounted for approximately 36 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 2004 are set out in the consolidated income statement on page 19 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2004.

SHARE CAPITAL

Details of the share capital of the Group and the Company are set out in Note 24 to the accompanying consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 26 to the accompanying consolidated financial statements.

As at 31 December 2004 and 2003, the Company has no reserves available for distribution to its shareholders.

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 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 27 to the accompanying consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 15 to the accompanying consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in leasehold properties and other property, plant and equipment of the Group during the year are set out in Notes 12 and 13 to the accompanying consolidated financial statements, respectively.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2004 are set out in Note 21 to the accompanying consolidated financial statements.

CONNECTED TRANSACTIONS

There were no significant connected party transactions entered into by the Group for the year ended 31 December 2004.

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. Zhong Zhi Gang
Mr. Xie Xiaodong
Mr. Mu Yong

Independent Non-executive Directors

Mr. Chau On Ta Yuen
Mr. Ho Leong Leong, Lawrence
Mr. Lam Man Sum, Albert (Appointed on 18 February 2005)

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to GEM Listing Rule 5.09 and the Company considers the independent non-executive Directors remained independent.

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

Directors' Service Contracts

Mr. Chung Chi Mang has entered into a service contract for an initial term of three years commencing from 1 November 2000. Each of Mr. Zhong Zhi Gang and Mr. Xie Xiaodong has entered into a service contract for an initial term of three years commencing from 5 July 2001. Mr. Mu Yong has not been appointed for any fixed term. After the initial term, 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 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 31 December 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 31 December 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 *(Note 1)*	Interest of a controlled corporation	234,000,000 (L)	39.00%
Ms. Ma Wai *(Note 2)*	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 31 December 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 31 December 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 31 December 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 three members comprising Mr. Chau On Ta Yuen (who is acting as the chairman of the audit committee), Mr. Ho Leong Leong, Lawrence and Mr. Lam Man Sum, Albert, the three independent non-executive Directors. Mr. Lam Man Sum, Albert was appointed as a member of the audit committee of the Company with effect from 18 February 2005. The audit committee met four times during the year. The Group's audited consolidated results for the year 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 year, 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. CCIF CPA Limited, 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.

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 year.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

For the year 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 year under review.

BOARD PRACTICES AND PROCEDURES

For the year under review, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning the board practices and procedures, which applied before the amendment relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report.

AUDITORS

Messrs. CCIF CPA Limited (formerly known as 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 consolidated financial statements were audited by Messrs. CCIF CPA Limited. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Chung Chi Mang
Chairman

Hong Kong, 24 March 2005

CCIF

CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong
General: +852 2894 6888
Facsimile: +852 2895 3752
Email: info@ccifcpa.com.hk
www.ccifcpa.com.hk

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 2004 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 19 to 60, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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.

Without qualifying our opinion, we draw attention to Note 2(b) in the financial statements which indicates that the Company's and the Group's current liabilities exceeded its current assets by approximately RMB3,089,000 and RMB58,870,000 respectively. These conditions, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

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 2004, 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.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 24 March 2005.

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31 December 2004 (Expressed in Renminbi)

	Note	**2004** **RMB'000**	2003 RMB'000
Turnover	3	**44,160**	26,645
Cost of sales		**(9,518)**	(5,177)
Gross profit		**34,642**	21,468
Other revenue	5	**295**	639
Other net income	5	**13,670**	—
Selling and distribution expenses		**(17,334)**	(17,602)
General and administrative expenses		**(18,536)**	(105,379)
Profit/(loss) from operations		**12,737**	(100,874)
Finance costs	6(a)	**(2,564)**	(3,082)
Impairment loss on property, plant and equipment		**(8,600)**	—
Provision for amount due from an associate		**(1,034)**	(12,946)
Share of results of an associate		**—**	(212)
Profit/(loss) from ordinary activities before taxation	6	**539**	(117,114)
Income tax	7(a)	**—**	—
Profit/(loss) attributable to shareholders	10	**539**	(117,114)
Earnings/(loss) per share	11		
Basic		**RMB0.09 cents**	RMB(19.52) cents

The notes on pages 24 to 60 form part of these financial statements.

Consolidated Balance Sheet

31 December 2004 (Expressed in Renminbi)

	Note	Group 2004 RMB'000	Group 2003 RMB'000	Company 2004 RMB'000	Company 2003 RMB'000
NON-CURRENT ASSETS					
Leasehold properties	12	**21,775**	30,001	**—**	—
Other property, plant and equipment	13	**41,764**	53,423	**—**	—
Intangible assets	14	**2,067**	2,867	**—**	—
Interests in subsidiaries	15	**—**	—	**9,237**	6,998
Interest in an associate	16	**—**	—	**—**	—
Total non-current assets		**65,606**	86,291	**9,237**	6,998
CURRENT ASSETS					
Inventories	17	**803**	203	**—**	—
Trade and other receivables	18	**38,014**	20,943	**8**	41
Cash and cash equivalents	19	**812**	11,142	**3**	3
Total current assets		**39,629**	32,288	**11**	44
CURRENT LIABILITIES					
Trade and other payables	20	**(41,389)**	(52,209)	**(3,100)**	(1,746)
Short-term bank borrowings, secured	21	**(45,000)**	(45,000)	**—**	—
Long-term secured bank borrowings, current portion		**—**	(411)	**—**	—
Obligations under a finance lease, current portion	22	**(264)**	(240)	**—**	—
Current taxation	23(a)	**(11,846)**	(11,846)	**—**	—
Total current liabilities		**(98,499)**	(109,706)	**(3,100)**	(1,746)
Net current liabilities		**(58,870)**	(77,418)	**(3,089)**	(1,702)
Total assets less current liabilities		**6,736**	8,873	**6,148**	5,296
NON-CURRENT LIABILITIES					
Long-term secured bank borrowings, non-current portion		**—**	(2,436)	**—**	—
Obligations under a finance lease, non-current portion	22	**(20)**	(260)	**—**	—
NET ASSETS		**6,716**	6,177	**6,148**	5,296
CAPITAL AND RESERVES					
Share capital	24	**64,200**	64,200	**64,200**	64,200
Reserves	26	**(57,484)**	(58,023)	**(58,052)**	(58,904)
		6,716	6,177	**6,148**	5,296

Approved and authorised for issue by the board of directors on 24 March 2005

Chung Chi Mang
Director

Zhong Zhi Gang
Director

The notes on pages 24 to 60 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004 (Expressed in Renminbi)

	2004 RMB'000	2003 RMB'000
Shareholders' equity at 1 January	**6,177**	123,291
Net profit/(loss) for the year	**539**	(117,114)
Shareholders' equity at 31 December	**6,716**	6,177

The notes on pages 24 to 60 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2004 (Expressed in Renminbi)

	Note	2004 RMB'000	2004 RMB'000	2003 RMB'000	2003 RMB'000
Operating activities					
Profit/(loss) from ordinary activities before taxation		**539**		(117,114)	
Adjustments for:					
Amortisation of leasehold properties		**884**		1,231	
Depreciation of other property, plant and equipment		**2,906**		1,878	
Amortisation of intangible assets		**800**		891	
Impairment loss on intangible assets		**—**		92	
Impairment loss on property, plant and equipment		**8,600**		—	
(Write-back of provision)/provision for bad and doubtful debts		**(7,845)**		58,088	
(Write-back of provision)/provision for obsolete inventories		**(5,604)**		22,715	
Finance costs		**2,564**		3,082	
Interest income		**(96)**		(12)	
(Profit)/loss on disposal of property, plant and equipment		**(221)**		14	
Provision for amount due from an associate		**1,034**		12,946	
Share of loss of an associate		**—**		212	
Operating profit/(loss) before changes in working capital		**3,561**		(15,977)	
Decrease in inventories		**5,004**		1,456	
Increase in debtors, deposits and prepayments		**(9,226)**		(7,838)	
Increase in creditors and accrued charges		**1,159**		13,832	
Increase in deposits and receipts in advance from customers		**336**		2,809	
(Decrease)/increase in other tax payable		**(12,315)**		850	
Net cash used in operating activities			**(11,481)**		(4,868)
Investing activities					
Payment for purchase of property, plant and equipment		**(379)**		(8,765)	
Proceeds from sales of property, plant and equipment		**6,201**		—	
Net (advances to)/repayments from the associate		**(1,034)**		2,204	
Decrease/(increase) in pledged bank deposits		**10,867**		(7)	
Interest received		**96**		12	
Net cash from/(used in) investing activities			**15,751**		(6,556)

Consolidated Cash Flow Statement

For the year ended 31 December 2004 (Expressed in Renminbi)

	Note	**2004**		2003	
		RMB'000	**RMB'000**	RMB'000	RMB'000
Financing activities					
Proceeds from new short-term bank loans		**—**		15,000	
Repayment of long-term bank loans		**(953)**		(389)	
Capital element of finance lease rentals paid		**(216)**		(239)	
Interest element of finance lease rentals paid		**(54)**		(54)	
Interest paid		**(2,510)**		(3,028)	
Net cash (used in)/from financing activities			**(3,733)**		11,290
Net increase/(decrease) in cash and cash equivalents			**537**		(134)
Cash and cash equivalents at 1 January			**275**		409
Cash and cash equivalents at 31 December	19		**812**		275

The notes on pages 24 to 60 form part of these financial statements.

1. CORPORATION INFORMATION

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, and its shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with the effect from 20 July 2001. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies, and its principal place of business is Unit 3105, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong.

The principal activities of the Company and the Group are investment holding and the manufacturing and sales of medicines respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") published by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

Notwithstanding that the Company and the Group had net current liabilities as at 31 December 2004, including the Group's short-term bank loans of approximately RMB45,000,000 which have been overdue as at the date of authorisation for issue of these financial statements, the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when the fall due having regard to the following:

(i) ongoing support of the Group's present bankers and the successful outcome of the renewal of the overdue bank loans made available to the Group;

(ii) adequate financing for other bankers or other sources being available to the Group to fund the Group's operations before sufficient cash flows are generated from operations; and

(iii) continuing financial support received from the ultimate holding company.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, it is appropriate that these financial statements should be prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern. These would include any adjustments required to write down the Group's and the Company's assets to their recoverable amounts, to provide for any liabilities which may arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

(c) Subsidiaries

A subsidiary is an enterprise 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 obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 decision.

An investment 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, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year. When the Group's share of losses exceeds the carrying amount of associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates 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 income statement.

(e) Leasehold properties

Land in the People's Republic China (the "PRC") is owned by the State and no individual land ownership right exists. In accordance with IFRS 40 "Investment Property", it is concluded that all interests in property held under an operating lease should be dealt with in accordance with IFRS 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)).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other property, plant and equipment

(i) Other 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 other property, plant and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs of other property, plant and equipment are expensed when incurred. Depreciation is calculated to write off the cost less residual value of each assets on a straight-line basis 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 other property, plant and equipment.

(iii) Gains or losses arising from the retirement or disposal of an asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible assets and amortisation (Continued)

(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.

(iv) Amortisation of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of the underlying products of not exceeding ten years, commencing from the date when the products are put into commercial production.

(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 terms of the relevant lease or, where it is likely the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(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.

(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;

— other property, plant and equipment;

— interests in subsidiaries and associates; 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula 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 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 in which 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.

(k) Accounts receivable

Accounts receivable, which generally have credit terms ranging from 90 to 180 days, are recognised and carried at cost less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(l) 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 a component of cash and cash equivalents for the purpose of the cash flow statement.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost of 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) Contributions to defined contribution schemes are recognised as an expense in the income statement as incurred.

(n) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credit, that is, those differences are taken into account if they relate to the same taxable authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously;
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred the liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities or a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised in the income statement as follows:

(i) *Sales of goods*

Revenue is recognised when the 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 tax and is stated after deduction of any goods returns and trade discounts.

(ii) *Royalty income*

Royalty income is recognised on an accrual basis in accordance with the relevant agreement.

(iii) *Interest income*

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

(q) Advertising and promotion costs

Costs of advertising and promotion are expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset of its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date.

Exchange gains and losses are dealt with in the income statement.

The results of foreign enterprises are translated into Renminbi at the average exchange rates for the year; balance sheet items are translated into Renminbi at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(t) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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 fixed assets. 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.

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 interests.

(v) 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 disclosed in the notes to the financial statements when material.

(w) 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.

3. TURNOVER

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is stated after deduction of any goods returns and trade discounts.

Sales to the top five customers accounted for approximately 61% (2003: 46%) of the Group's turnover for the year ended 31 December 2004.

4. SEGMENT REPORTING

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

(b) Geographical segment

As the Group's revenue and results were substantially derived from the People's Republic of China ("PRC") and its operating assets and liabilities are also based in the PRC, no geographical segment information is presented.

5. OTHER REVENUE AND NET INCOME

	2004 RMB'000	2003 RMB'000
Other revenue		
Interest income	**96**	12
Sample income	**199**	588
Others	**—**	39
	295	639
Other net income		
Write-back of provision for obsolete inventories	**5,604**	—
Write-back of provision for bad and doubtful debts	**7,845**	—
Profit on disposal of property, plant and equipment	**221**	—
	13,670	—

6. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2004 RMB'000	2003 RMB'000
(a) Finance costs		
Interest on bank advances and other borrowings		
— wholly repayable within five years	**2,362**	2,700
— after five years	**148**	328
Finance charges on obligations under a finance lease	**54**	54
Total borrowing costs	**2,564**	3,082
(b) Staff costs		
Contributions to defined contribution plans	**611**	1,167
Salaries, wages and other benefits	**6,811**	11,326
Total staff costs	**7,422**	12,493

6. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION (Continued)

	2004 RMB'000	2003 RMB'000
(c) Other items		
Cost of inventories sold	**9,518**	5,177
Auditors' remuneration	**449**	449
Depreciation		
— owned assets	**2,703**	1,675
— an asset held under finance lease	**203**	203
Amortisation of leasehold properties	**884**	1,231
Amortisation of intangible assets	**800**	891
Impairment loss on intangible assets	**—**	92
Research and development costs	**477**	230
Advertising and promotion expenses	**11,983**	12,338
Operating lease charges: minimum lease payments		
— property rental	**2,050**	2,673
(Write-back of provision)/provision for obsolete inventories	**(5,604)**	22,715
(Write-back of provision)/provision for bad and doubtful debts	**(7,845)**	58,088
(Profit)/loss on disposal of property, plant and equipment	**(221)**	14
Net exchange loss/(gain)	**18**	(81)

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2004 RMB'000	2003 RMB'000
Current tax — Tax for the year		
Provision for PRC enterprise income tax	**—**	—
Provision for Hong Kong profits tax	**—**	—
	—	—
Share of taxation of an associate	**—**	—
	—	—

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(a) Taxation in the consolidated income statement represents: (Continued)

Notes:

(i) 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.

(ii) No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit in Hong Kong during the year (2003: Nil).

(iii) Shanxi Everpride Pharmaceutical Co., Ltd. ("Shanxi Everpride"), a wholly-owned subsidiary established and operating in Shanxi Province, PRC, is subject to PRC 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 PRC enterprise income tax at an effective rate of 18% from 1 January 2001 to 31 December 2003. No provision for PRC enterprise income tax has been made as Shanxi Everpride has accumulated tax losses brought forward which exceeds the estimated assessable profits for the year (2003: Shanxi Everpride has no estimated assessable profits).

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2004 **RMB'000**	2003 RMB'000
Profit/(loss) before tax	**539**	(117,114)
Notional tax on profit/(loss) before tax, calculated at the statutory rate of 33%	**178**	(38,648)
Tax effect of non-deductible expenses	**3,210**	31,023
Tax effect of non-taxable revenue	**(4,438)**	(204)
Tax effect of utilisation of previously unrecognised tax losses	**(1,008)**	—
Tax effect of unused tax losses not recognised	**1,078**	6,409
Tax effect of reduced tax rate	**980**	1,420
Actual tax expense	**—**	—

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	The Group	
	2004	2003
	RMB'000	RMB'000
Fees for executive directors	**—**	—
Fees for non-executive directors	**139**	139
Other emoluments for executive directors		
— basic salaries and allowances	**1,782**	3,924
— retirement scheme contributions	**39**	61
	1,960	4,124

Included in the directors' remuneration were fees of approximately RMB70,000 (2003: RMB70,000), RMB70,000 (2003: RMB42,000) and RMB Nil (2003: RMB Nil) paid to the non-executive directors during the year.

Emoluments of each of the executive directors amounted to approximately RMB1,238,000 (2003: RMB1,235,000), RMB291,000 (2003: RMB314,000) and RMB291,000 (2003: RMB314,000) for the year.

No directors waived any emoluments during the year (2003: Nil). No incentive payments for joining the Group or compensation for loss of office was paid or payable to any director for the year (2003: Nil).

8. DIRECTORS' REMUNERATION (Continued)

The remuneration of the directors is within the following bands:

	Number of directors	
	2004	2003
Executive directors		
— Nil – RMB1,070,000 (approximately equivalent to HK$1,000,000)	**3**	3
— RMB1,070,001 (approximately equivalent to HK$1,000,000) – RMB1,605,000 (approximately equivalent to HK$1,500,000)	**1**	2
Non-executive directors		
— Nil to RMB1,070,000 (approximately equivalents to HK$1,000,000)	**2**	3
	6	8

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2003: five) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the five highest paid individuals are as follows:

	2004	2003
	RMB'000	RMB'000
Salaries and other emoluments	**2,480**	3,924
Discretionary bonuses	**—**	—
Retirement scheme contributions	**61**	61
	2,541	3,985

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9. INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

The emoluments of the five highest paid individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2004	2003
Nil – RMB1,070,000 (approximately equivalent to HK$1,000,000)	**4**	3
RMB1,070,001 (approximately equivalent to HK$1,000,000) – RMB1,605,000 (approximately equivalent to HK$1,500,000)	**1**	2
	5	5

10. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit/loss attributable to shareholders includes a profit of approximately RMB852,000 (2003: a loss of approximately RMB93,918,000) which has been dealt with in the financial statements of the Company.

11. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of approximately RMB539,000 (2003: loss of approximately RMB117,114,000) and on the weighted average of 600,000,000 (2003: 600,000,000) ordinary shares in issue during the year.

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is not presented as there was no dilutive potential ordinary shares in existence during the years ended 31 December 2004 and 2003.

12. 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 2004	1,250	31,949	33,199
Additions	—	87	87
Disposals	—	(7,740)	(7,740)
At 31 December 2004	1,250	24,296	25,546
Accumulated amortisation and impairment losses			
At 1 January 2004	66	3,132	3,198
Amortisation for the year	30	854	884
Written back on disposals	—	(311)	(311)
At 31 December 2004	96	3,675	3,771
Net book value			
At 31 December 2004	1,154	20,621	21,775
At 31 December 2003	1,184	28,817	30,001

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

	2004			2003		
	Land RMB'000	**Buildings RMB'000**	**Total RMB'000**	Land RMB'000	Buildings RMB'000	Total RMB'000
In PRC						
— long-term leases (i)	**—**	**1,161**	**1,161**	—	7,437	7,437
— medium-term leases (ii)	**1,154**	**19,460**	**20,614**	1,184	21,380	22,564
	1,154	**20,621**	**21,775**	1,184	28,817	30,001

12. LEASEHOLD PROPERTIES (Continued)

(b) The analysis of net book value of leasehold properties is as follows: (Continued)

Notes:

(i) Buildings under long-term leases are granted with land use rights for a period of 70 years up to 2070.

(ii) The land use right under medium-term lease 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 2045.

(iii) Leasehold properties of approximately RMB20,500,000 (2003: RMB26,454,000) have been pledged to banks to secure bank loan facilities granted to the Group.

13. OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Movements in other property, plant and equipment of the Group are as follows:

	Machinery and equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost					
At 1 January 2004	10,026	3,061	10,520	34,490	58,097
Additions	9	74	—	209	292
Transfer	419	—	—	(419)	—
Disposals	—	—	(445)	—	(445)
At 31 December 2004	10,454	3,135	10,075	34,280	57,944
Accumulated depreciation and impairment losses					
At 1 January 2004	699	1,664	2,311	—	4,674
Charge for the year	1,119	578	1,209	—	2,906
Impairment loss	—	—	—	8,600	8,600
At 31 December 2004	1,818	2,242	3,520	8,600	16,180
Net book value					
At 31 December 2004	8,636	893	6,555	25,680	41,764
At 31 December 2003	9,327	1,397	8,209	34,490	53,423

As at 31 December 2004, the net book value of a motor vehicle held under a finance lease of the Group was approximately RMB509,000 (2003: RMB712,000).

13. OTHER PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Movements in other property, plant and equipment of the Group are as follows: (Continued)

Impairment loss

During the year, the Group has still not yet obtained the approval from the State Drug Administration of the People's Republic of China ("SDA") for the production of new products that caused the Group to postpone the completion of the construction-in-progress (i.e. new production line and staff quarters), therefore the Group assessed the recoverable amount of this construction-in-progress dedicated to that products. Based on this assessment, the carrying amount of this construction-in-progress was written down by RMB8,600,000. The estimates of recoverable amount were based on value in use.

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

	2004	2003
	RMB'000	RMB'000
Construction costs of buildings	**32,840**	32,160
Cost of machinery pending installation	**1,440**	2,330
	34,280	34,490

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 12(b)(ii)).

Construction-in-progress of approximately RMB32,840,000 (2003: RMB32,160,000) have been pledged to banks to secure bank loan facilities granted to the Group.

14. INTANGIBLE ASSETS

Movements in intangible assets of the Group are as follows:

	The Group	
	2004	2003
	RMB'000	RMB'000
Cost		
At 1 January and 31 December	**5,000**	5,000
Accumulated amortisation and impairment losses		
At 1 January	**2,133**	1,150
Charge for the year	**800**	891
Impairment loss	**—**	92
At 31 December	**2,933**	2,133
Net book value		
At 31 December	**2,067**	2,867

Intangible assets represents exclusive rights acquired by the Group to produce and well the products of "Plasma Capsule" and "Puli Capsule" within and outside the PRC.

The amortisation charge for the year is included in "general and administrative expenses" in the consolidated income statement.

15. INTERESTS IN SUBSIDIARIES

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

	2004	2003
	RMB'000	RMB'000
Unlisted shares, at cost	**57,784**	57,784
Due from subsidiaries	**40,881**	42,922
Due to subsidiaries	**(5,968)**	(5,968)
	92,697	94,738
Less: Impairment loss	**(83,460)**	(87,740)
	9,237	6,998

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15. INTERESTS IN SUBSIDIARIES (Continued)

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

The underlying value of the interests in subsidiaries, in the opinion of the Company's directors, not less than its carrying value as at 31 December 2004.

The particulars of all subsidiaries of the Company at 31 December 2004 were as follows:

			Proportion of ownership interest			
Name of company	**Place of incorporation**	**Particulars of issued and fully paid share capital/registered capital**	**Group's effective interest**	**held by the Company**	**held by the subsidiary**	**Principal activities**
Garner International Investments Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1 each	100%	100%	—	Investment holding
Everpride Pharmaceutical (H.K.) Co., Limited	Hong Kong	100 ordinary shares of HK$1 each	100%	—	100%	Trading of medicines
Scyla Assets Limited	BVI	1,000 ordinary shares of US$1 each	100%	—	100%	Investment holding
Shanxi Everpride Pharmaceutical Co., Ltd. ("Shanxi Everpride")*	PRC	US$2,280,000	100%	—	100%	Manufacture and sales medicines

* Shanxi Everpride is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to 26 May 2015.

16. INTEREST IN AN ASSOCIATE

	The Group	
	2004	2003
	RMB'000	RMB'000
Share of net assets	**—**	—
Due from associate	**13,980**	12,946
Less: Provision	**(13,980)**	(12,946)
	—	—
	—	—

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

Details of the associate as at 31 December 2004 were as follows:

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

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

17. INVENTORIES

	The Group	
	2004	2003
	RMB'000	RMB'000
Raw materials, at cost	**17,493**	21,928
Finished goods, at cost	**667**	1,236
	18,160	23,164
Less: Provision for obsolete inventories	**(17,357)**	(22,961)
	803	203

18. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Rental and other deposits	**622**	244	**—**	—
Accounts receivable	**30,737**	19,133	**—**	—
Prepayments and other receivables	**6,655**	1,566	**8**	41
	38,014	20,943	**8**	41

All of the trade and other receivables, apart from rental and other deposits, are expected to be recovered within one year.

Included in trade and other receivables are accounts receivable with the following ageing analysis:

	The Group	
	2004	2003
	RMB'000	RMB'000
0 to 30 days	**14,135**	4,376
31 to 60 days	**10,328**	3,258
61 to 90 days	**1,530**	2,907
91 to 180 days	**2,152**	4,056
181 to 365 days	**2,462**	5,532
Over 365 days	**45,539**	51,041
	76,146	71,170
Less: Provision for bad and doubtful debts	**(45,409)**	(52,037)
	30,737	19,133

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

19. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged bank deposits, denominated in				
— United States dollar	**—**	10,867	**—**	—
Other cash and bank deposits, denominated in				
— Hong Kong dollars and United States dollars	**12**	26	**3**	3
— Renminbi	**800**	249	**—**	—
	812	275	**3**	3
Cash and cash equivalents in the balance sheets	**812**	11,142	**3**	3
Less: Pledged bank deposits	**—**	(10,867)		
Cash and cash equivalents in the consolidated cash flow statement	**812**	275		

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. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts payable	**956**	803	**—**	—
Deposits and receipts in advance from customers	**9,894**	13,064	**—**	—
Accrued expenses and other payables	**13,893**	10,387	**1,805**	1,746
Other tax payable	**15,385**	27,700	**—**	—
Due to directors*	**1,261**	255	**1,295**	—
	41,389	52,209	**3,100**	1,746

* The amounts due to directors are unsecured, non-interest bearing and has no fixed terms of repayment.

All of the trade and other payables, apart from deposits and receipts in advance from customers, are expected to be settled within one year.

Included in trade and other payables are accounts payable with the following ageing analysis:

	The Group	
	2004	2003
	RMB'000	RMB'000
0 to 30 days	**147**	150
31 to 60 days	**98**	137
61 to 90 days	**204**	88
91 to 180 days	**—**	39
181 to 365 days	**117**	—
Over 365 days	**390**	389
	956	803

21. SHORT-TERM BANK BORROWINGS, SECURED

Short-term bank borrowings bear interest at rates of 6.6906% to 6.9174% (2003: 6.6906%) per annum.

The banking facilities of certain subsidiaries are secured by mortgages over their leasehold properties with an aggregate carrying amount of approximately RMB20,500,000 (2003: RMB26,454,000), construction-in-progress with an aggregate carrying amount of RMB32,840,000 (2003: RMB32,160,000) and charges over their bank deposits of approximately RMBNil (2003: RMB10,867,000). Such banking facilities, amounting to approximately RMB45,000,000 (2003: RMB45,000,000), were utilised to the extent of approximately RMB45,000,000 (2003: RMB45,000,000) at 31 December 2004.

22. OBLIGATIONS UNDER A FINANCE LEASE

At 31 December 2004, the Group had obligations under a finance lease repayable as follows:

	The Group					
	2004			2003		
	Present value of the minimum lease payments RMB'000	**Interest expense relating to future periods RMB'000**	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Interest expense relating to future periods RMB'000	Total minimum lease payments RMB'000
Within 1 year	**264**	**51**	**315**	240	51	291
After 1 year but within 2 years	**20**	**4**	**24**	240	51	291
After 2 years but within 5 years	**—**	**—**	**—**	20	4	24
	20	**4**	**24**	260	55	315
	284	**55**	**339**	500	106	606

23. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2004	2003
	RMB'000	RMB'000
Balance of provision for PRC enterprise income tax at 1 January and 31 December	**11,846**	11,846
Amount of taxation payable expected to be settled after more than 1 year	**11,846**	11,846

(b) Deferred tax liabilities/(assets) not recognised

The following temporary differences have not been recognised:

	The Group	
	2004	2003
	RMB'000	RMB'000
Deferred tax liabilities/(assets) arising from:		
Depreciation allowances in excess of related depreciation	**109**	136
Provision for bad and doubtful debts	**(18,600)**	(21,189)
Provision for obsolete inventories	**(5,728)**	(7,577)
Tax losses	**(6,852)**	(7,354)
	(31,071)	(35,984)

23. INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax liabilities/(assets) not recognised (Continued)

At the balance sheet date and for the year, no deferred tax assets has been recognised in relation to the deductible temporary differences and tax losses as it is not probable that taxable profit will be available against which the deductible temporary differences and tax losses can be utilised. The Group's tax losses of approximately RMB3,839,000 (2003: RMB4,818,000) and RMB3,013,000 (2003: RMB2,536,000) will expire in five years and do not expire respectively. The Company had no significant potential deferred tax assets for the year and at the balance sheet date.

The Group and the Company had no significant potential deferred tax liabilities for the year and at the balance sheet date.

24. SHARE CAPITAL

	The Group		The Company	
	Number of shares	Nominal value	Number of shares	Nominal value
	'000	RMB'000	'000	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 change in the Company's authorised and issued share capital.

25. 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.

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.

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 an acceptance of the option offer.

During the both years and as at 31 December 2004 and 2003, no eligible employee had been granted any option to subscribe for shares in the Company.

26. RESERVES

(a) The Group

	Capital reserve (note (i)) RMB'000	General reserve fund (note (ii)) RMB'000	Exchange reserve fund RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2003	7,195	9,025	(97)	42,968	59,091
Net loss for the year	—	—	—	(117,114)	(117,114)
At 31 December 2003 and 1 January 2004	7,195	9,025	(97)	(74,146)	(58,023)
Net profit for the year	—	—	—	539	539
At 31 December 2004	7,195	9,025	(97)	(73,607)	(57,484)

Included in the figure for the accumulated losses is an amount of approximately RMB200,000 (2003: RMB200,000), being the accumulated losses attributable to the associate.

Notes:

(i) *Capital reserve*

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

(ii) *General reserve fund*

According to the relevant laws and regulations in the PRC, Shanxi Everpride, as a wholly foreign-owned enterprise established in the PRC, is required to appropriate at least 10% of after-tax profit (after offsetting prior years' losses), based on the PRC statutory financial statements prepared in accordance with the generally accepted accounting principals and financial regulations applicable to the PRC enterprises, to a general reserve fund until the balance of the fund reaches 50% of its registered capital. Thereafter, any further appropriation can be made at the directors' discretion.

The general reserve fund can be utilised to offset the prior years' losses, or be utilised to increase the capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such increase.

The directors of Shanxi Everpride resolved not to appropriate its after-tax profit to the general reserve fund for each of the years ended 31 December 2004 and 2003. It is because the general reserve fund of Shanxi Everpride has reached 50% of its registered capital and no further appropriation is necessary unless that is an increase in the amount of its registered capital.

26. RESERVES (Continued)

(b) The Company

	Contributed surplus (note (i)) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2003	56,774	(21,760)	35,014
Net loss for the year	—	(93,918)	(93,918)
At 31 December 2003 and 1 January 2004	56,774	(115,678)	(58,904)
Net profit for the year	—	852	852
At 31 December 2004	56,774	(114,826)	(58,052)

In the opinion of the Company's directors, as at 31 December 2004 and 2003, the Company has no reserves available for distribution to its shareholders.

Note:

(i) *Contributed surplus*

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 capital account.

27. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

27. RETIREMENT BENEFITS SCHEME (Continued)

As stipulated by the rules and regulations in the PRC, Shanxi Everpride, a subsidiary established in the PRC, 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.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

For the year ended 31 December 2004, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately RMB611,000 (2003: RMB1,167,000) which was included in the staff costs.

28. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	RMB'000	RMB'000
Contracted for		
— acquisition of machinery and equipment	**2,900**	2,900
— construction of ancillary factory buildings	**301**	980
	3,201	3,880

(b) At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2004	2003
	RMB'000	RMB'000
Within 1 year	**1,307**	1,641
After 1 year but within 5 years	**79**	834
	1,386	2,475

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

29. 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.

30. 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 2004, the Group's five largest accounts receivable accounted for approximately 47% (2003: 60%) of the Group's gross 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 the PRC. Although the Government of the People's Republic of China ("PRC Government") has been pursuing economic reform policies for the past years, no assurance can be given that the PRC 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 the PRC. This includes risks associated with, among others, the political, economic and legal environment in the PRC.

(e) Interest rate risk

The interest rates of bank borrowings of the Group are disclosed in note 21.

31. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2004 to be Montgomery Properties Holding Limited, which is incorporated in British Virgin Islands.