Annual Report 2005

Everpride Biopharmaceutical Company Limited

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 8019)

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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

Leung King Fai, CPA, CPA (Aust.)

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 2002, 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
Leung King Fai

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
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

in Hong Kong
Standard Chartered Bank

in Mainland China
Hua Xia Bank
Bank of China

GEM STOCK CODE

8019

Chairman's Statement

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 2005.

Turnover for the year was approximately RMB48,165,000, which represented an increase of approximately 9% as compared with that of 2004. However, the Group recorded a loss for the year of approximately RMB23,998,000. The loss is due mainly to an increase in provision for bad and doubtful debts. In view of poor financial position of several customers, provision for bad and doubtful debts was made during the year.

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 by the end of year 2006. 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, 4 May 2006

Management Discussions and Analysis

OPERATION REVIEW

During the year under review, the Group continued to engage 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 obtained the Good Manufacturing Practices ("GMP") certificate on 28 February 2003.

FINANCIAL REVIEW

During the year under review, the Group recorded an audited consolidated turnover of approximately RMB48,165,000 (2004: RMB44,160,000), which represented an increase of approximately 9% as compared with that of 2004. The Group's audited consolidated loss attributable to shareholders for the year was approximately RMB23,998,000 (2004: profit attributable to shareholders of approximately RMB539,000). This is due mainly to an increase in provision for bad and doubtful debts. In view of poor financial position of several customers, 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".

The sales of "Puli Capsule" was approximately RMB41,228,000 (2004: RMB40,072,000), representing approximately 86% 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 RMB6,301,000 (2004: RMB4,088,000), representing approximately 13% 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.

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 announcement, such approval has not been obtained and the application is still in progress. Once the clinical trials are completed and approved, the Group will make an application for a Certificate of New Medicine in respect of Staphylokinese. Such delay was due to the 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 by the end of 2006.

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 2005, the Group had cash and cash equivalents amounting to approximately RMB612,000 (2004: RMB812,000). 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 2005, certain leasehold properties and construction in progress with an aggregate carrying amounts of approximately RMB38,781,000 (2004: RMB20,500,000) and RMB Nil (2004: RMB32,840,000) 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.

Management Discussions and Analysis

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 101 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 RMB7,221,000 for the year under review (2004: RMB7,422,000).

GEARING RATIO

As at 31 December 2005, the Group's gearing ratio, being the ratio of total liabilities to total assets, was 121% (2004: 94%).

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no contingent liabilities (2004: Nil).

OUTLOOK

The Directors still 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 Profiles

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Chung Chi Mang, aged 44, 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, aged 43, 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, aged 56, 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 10 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, aged 47, 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, aged 58, 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, aged 55, 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 50, 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.

Directors and Senior Management Profiles

Senior Management

Mr. Shan Bingwei, aged 51, 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, aged 66, 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.

Ms. Lou Xiaofen, aged 42, is the Department Head of Department of Medicine and Science in the Beijing Representative Office of Everpride Pharmaceutical Company (Hong Kong) Ltd. She is responsible for product research and development. Ms. Lou graduated from the Medical School of Zhejiang University. Prior to joining the Group in July 2002, Ms. Lou was the Head of *in vitro* research group, Department of Pharmacology and Biology, Beijing Representative Office of Pharmagenesis Pharmaceutical Company of the United States.

Dr. Jia Yanjun, aged 36, is the Department head of Medicine and Science in Shanxi Everpride. He is responsible for product research and development. Dr. Jia is a holder of Degree of Doctor of sciences from Chinese Academy of Military Medical Sciences. He has long been engaged in the research on enzymes and human gene transferring. Prior to joining the Group in February 2004, Dr. Jia was an assistant researcher in Chinese Academy of Military Medical Sciences.

Mr. Wang Hong Yong, aged 36, 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.

Mr. Leung King Fai, aged 34, is the company secretary and financial controller of the Group. Mr. Leung is responsible for the financial and accounting functions of the Group. He graduated from Deakin University, Victoria, Australia with a bachelor's degree in commerce. Mr. Leung is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. He joined the Group in November 2005. Mr. Leung has worked for an international audit firm and listed company in Hong Kong. He has extensive experience in accounting and financial management.

Corporate Governance Report

The board of directors of the Company (the "Board") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2005.

Good corporate governance has always been recognized as vital to the Group's success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of the Group's business.

In November 2004, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") promulgated the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM Rules") which sets out corporate governance principles (the "Principles") and code provisions (the "Code Provisions") with which listed issuers are expected to follow and comply.

The Company has applied the Principles set out in the CG Code and complied with most of the Code Provisions save for:–

(1) the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code;

(2) the Code Provision A.2.1 which requires the separation of the roles of Chairman and Chief Executive Officer;

(3) the Code Provision A.4.2 which requires that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years; and

(4) the Code Provision B.1.1 which requires the establishment of a remuneration committee with specific written terms of reference.

The details of the above deviations of Code Provisions A.2.1, A.4.2 and B.1.1 will be explained below.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised as follows:–

A. THE BOARD

(1) Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

Corporate Governance Report

A. THE BOARD *(Continued)*

(1) Responsibilities *(Continued)*

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

(2) Composition

The composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business of the Company and for the exercise of independent judgement.

The Board comprises the following directors:–

Executive directors:–
Mr Chung Chi Mang, *Chairman of the Board & Compliance Officer*
Mr Zhong Zhi Gang
Mr Xie Xiaodong
Mr Mu Yong

Independent non-executive directors:–
Mr Chau On Ta Yuen, *Chairman of the Audit Committee*
Mr Ho Leong Leong, Lawrence, *member of the Audit Committee*
Mr Lam Man Sum, Albert, *member of the Audit Committee*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the GEM Rules from time to time.

Mr Zhong Zhi Gang is the younger brother of Mr Chung Chi Mang. Other than that, there is no relationship (including financial, business, family, or other material/relevant relationship(s)) among the Board members.

Following the appointment of Mr Lam Man Sum, Albert as an additional independent non-executive director with effect from 18 February 2005, the Board, during the period ended 31 December 2005, met the requirements of the GEM Rules relating to the appointment of at least three independent non-executive directors with one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

A. THE BOARD *(Continued)*

(2) Composition *(Continued)*

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the GEM Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the GEM Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

(3) Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

The term of office of each of the non-executive directors of the Company is up to the date of holding the Company's 2007 annual general meeting.

Code Provision A.4.2 of the CG Code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Articles of Association deviates from Code Provision A.4.2 of the CG Code as it provides that at every annual general meeting of the Company, one-third of the directors for the time being (save for the Chairman/Managing Director), or if their number is not a multiple of three, then the number nearest to one-third but not greater than one-third, shall retire from office by rotation and shall be eligible for re-election at the meeting and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

To conform with Code Provision A.4.2 of the CG Code, a special resolution will be proposed at the forthcoming annual general meeting of the Company to amend the Articles of Association of the Company so that all directors of the Company will be subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment.

Although the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

A. THE BOARD *(Continued)*

(3) Appointment and Succession Planning of Directors *(Continued)*

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Articles of Association, Mr Mu Yong and Mr Xie Xiaodong shall retire by rotation and, being eligible, offer themselves for re-election at the Company's forthcoming annual general meeting. The Board recommended the re-appointment of the above directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular to be despatched to its shareholders contains detailed information of the directors standing for re-election.

(4) Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the GEM Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

(5) Board and Committee Meetings

Number of Meetings and Directors' Attendance

Regular board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

A. THE BOARD *(Continued)*

(5) Board and Committee Meetings *(Continued)*

Number of Meetings and Directors' Attendance (Continued)

During the year ended 31 December 2005, 5 Board meetings and 4 Audit Committee meetings were held. The individual attendance record of each director at the meetings of the Board and Audit Committee during the year ended 31 December 2005 is set out below:–

	Attendance/Number of Meetings	
Name of Directors	**Board**	**Audit Committee**
Mr Chung Chi Mang	5/5 (Note)	N/A
Mr Zhong Zhi Gang	4/5 (Note)	N/A
Mr Xie Xiaodong	5/5 (Note)	N/A
Mr Mu Yong	4/5 (Note)	N/A
Mr Ho Leong Leong, Lawrence	4/5 (Note)	4/4
Mr Chau On Ta Yuen	4/5 (Note)	4/4
Mr Lam Man Sum, Albert	5/5 (Note)	4/4

Note: One of the Board meetings has discussed the remuneration related matters and one of the Board meetings has discussed the directors' nomination matters.

Practices and Conduct of Meetings

Annual meeting schedules and draft agendas of the Board and committee meetings are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least 3 days before each Board meeting or committee meeting to keep the directors/committee members apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Compliance Officer, Qualified Accountant and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The Company does not have an officer with the title of "Chief Executive Officer". The CG Code envisages that the management of the Board should rest with the Chairman, whereas the day-to-day management of the Company's business should rest with the Chief Executive Officer. Currently, Mr Chung Chi Mang, the Chairman of the Board, is also responsible for the operation of production plant in Taigu County, Shanxi Province. This constitutes a deviation of the Code Provision A.2.1. As Mr Chung Chi Mang has extensive experience and knowledge in the industry, the Board still holds the view that this arrangement is beneficial to the running of the production plant. Mr Chung Chi Mang will regularly inform the Board on the latest development of the plant in Taigu County, Shanxi Province. Despite the aforesaid, the Board will review such arrangement from time to time and consider the appointment of the Chief Executive Officer if it is in the best interest of the Company and its shareholders.

C. BOARD COMMITTEES

(1) Remuneration Committee

Code Provision B.1.1 stipulates that an issuer should establish a Remuneration Committee with specific written terms of reference and a majority of the members of the Remuneration Committee should be independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

Although the Company has not established its Remuneration Committee, the directors met once during the year ended 31 December 2005 and reviewed and discussed the remuneration policy and structure and remuneration packages of the directors and senior management and other related matters. The Company will arrange for the setting up of a Remuneration Committee of the Company in order to comply with the said Code Provision.

(2) Audit Committee

The Company has established its Audit Committee with defined written terms of reference. The terms of reference of the Audit Committee are available to shareholders upon request.

The Audit Committee is provided with sufficient resources to discharge their duties and, upon reasonable request, is able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Following the appointment of Mr Lam Man Sum, Albert as an additional independent non-executive director and Audit Committee member with effect from 18 February 2005, the Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

C. BOARD COMMITTEES *(Continued)*

(2) Audit Committee *(Continued)*

The main duties of the Audit Committee include the following:–

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer, internal auditor (if any) or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held 4 meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2005 have been reviewed by the Audit Committee.

D. REQUIRED STANDARD OF DEALINGS FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct (the "Own Code") on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Rules in respect of the dealings of the Company's securities by the Company's directors.

Specific enquiry has been made of all of the directors and they confirmed that they have complied with the Own Code and the Required Standard of Dealings throughout the year ended 31 December 2005.

The Company has also established written guidelines on no less exacting terms than the Required Standard of Dealings (the "Employees Written Guidelines") in respect of the dealings in the Company's securities by employees who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

E. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual, interim and quarterly reports, price-sensitive announcements and other disclosures required under the GEM Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Auditors' Report" on page 24.

The remuneration of the external auditors of the Company in respect of audit services for the year ended 31 December 2005 amounted to HK$400,000. The Company's external auditors also provide tax services to the Company for the year ended 31 December 2005 but no fee was charged in this respect.

F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Results on any voting conducted by poll will be posted on the website of the Stock Exchange by way of an announcement on the business day following the shareholders' meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the Board committees or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are normally available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated executive director(s) and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

Report of the Directors

The Directors are pleased to present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2005.

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 16 and 17 to the financial statements, respectively.

SEGMENT INFORMATION

An analysis of the principal activities and geographical locations of operations of the Group for the year ended 31 December 2005 is set out in Note 5 to the accompanying consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the five largest customers accounted for approximately 51% of the Group's total turnover. The five largest suppliers accounted for approximately 50% of the Group's total purchases. In addition, the largest customer accounted for approximately 17% of the Group's total turnover while the largest supplier accounted for approximately 17% 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% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

RESULTS AND DIVIDENDS

Details of the Group's results for the year ended 31 December 2005 are set out in the consolidated income statement on page 25 of this annual report.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial year is set out below:

Consolidated results

	Year ended 31 December				
	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Turnover	**48,165**	44,160	26,645	73,062	107,299
(Loss)/Profit before taxation	**(23,998)**	539	(117,114)	6,093	25,213
Taxation	**–**	–	–	(3,690)	(8,162)
Net (loss)/profit from ordinary activities attributable to shareholders	**(23,998)**	539	(117,114)	2,403	17,051

Consolidated assets and liabilities

	As at 31 December				
	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Non-current assets	**53,859**	65,606	86,291	114,129	56,957
Current assets	**28,105**	39,629	32,288	100,577	113,147
Current liabilities	**(99,371)**	(98,499)	(109,706)	(88,069)	(48,476)
Net current (liabilities)/assets	**(71,266)**	(58,870)	(77,418)	12,508	64,671
Non-current liabilities	**–**	(20)	(2,696)	(3,346)	(739)
Net (liabilities)/assets	**(17,407)**	6,716	6,177	123,291	120,889

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements in the Company's issued share capital, together with the details of the Company's share option scheme are set out in Note 25 and 26 to the financial statements.

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.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 27 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2005 and 2004, the Company has no reserves available for distribution to its shareholders.

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 13 and 14 to the accompanying consolidated financial statements, respectively.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2005 are set out in Note 22 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 2005.

Report of the Directors

DIRECTORS

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)

In accordance with the Company's articles of association, Messrs. Mu Yong and Xie Xiaodong will retire and, being eligible, offer themselves for re- election at the forthcoming annual general meeting.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 7 to 8 of the annual report.

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 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' INTERESTS IN CONTRACTS

No director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party-during or at the end of the year.

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 2005, 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	230,975,000 (L) *(Note 2)*	38.50%

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 230,975,000 shares owned by Montgomery Properties Holding Limited.

Save as disclosed above, as at 31 December 2005, 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 2005, 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	230,975,000 (L)	38.50%
Ms. Ma Wai *(Note 2)*	Interest of spouse	230,975,000 (L)	38.50%
Montgomery Properties Holding Limited	Beneficial owner	230,975,000 (L)	38.50%

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 230,975,000 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 2005, 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 2005, 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 2005, 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

Up to the date of this report, none of the Directors or the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) of the Company has an interest in a business which competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

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.

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 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, 4 May 2006

Auditors' Report

CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

Auditors' report to the shareholders of
Everpride Biopharmaceutical Company Limited
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the accompanying financial statements of Everpride Biopharmaceutical Company Limited (the "Company"), which comprise the balance sheet of the Company, the consolidated balance sheet of the Company and its subsidiaries (collectively referred to as the "Group") as at 31 December 2005 and the related consolidated income statement, statement of changes in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's management.

Except as discussed in the following paragraph, 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(b) to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2(b) to the financial statements, the Group is currently undertaking a number of measures to improve its financial and current liquidity position. The financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support by the Company's controlling shareholder and the Group's bankers, the availability of additional external funding and the attainment of profitable and positive cash flow operations to meet the Group's future working capital and financial requirements. The financial statements do not include any adjustment that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we consider that this fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

Qualified opinion: Disclaimer on view given by the financial statements

Because of the significance of the matters discussed in the proceeding paragraph we do not express an opinion on the financial statements.

CCIF CPA Limited
Certified Public Accountants

Hong Kong, 4 May 2006

Betty P. C. Tse
Practising Certificate Number P03024

Consolidated Income Statement

For the year ended 31 December 2005 (Expressed in Renminbi)

	Note	2005 RMB'000	2004 RMB'000
Turnover	4	**48,165**	44,160
Cost of sales		**(10,227)**	(9,518)
Gross profit		**37,938**	34,642
Other operating (loss)/income	6	**(15,334)**	13,869
Selling and distribution expenses		**(19,196)**	(17,334)
General and administrative expenses		**(19,497)**	(18,518)
(Loss)/profit from operations		**(16,089)**	12,659
Net finance costs	7(a)	**(3,311)**	(2,486)
Impairment loss on fixed assets		**(8,000)**	(8,600)
Reversal of impairment loss/(impairment loss) for amount due from an associate		**3,402**	(1,034)
(Loss)/profit from ordinary activities before taxation	7	**(23,998)**	539
Income tax	8(a)	**–**	–
(Loss)/profit attributable to shareholders	11	**(23,998)**	539
(Loss)/earnings per share	12		
Basic		**RMB(4.00) cents**	RMB0.09 cents

The notes on pages 29 to 60 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2005 (Expressed in Renminbi)

		The Group		The Company	
	Note	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Non-current assets					
Fixed assets					
– Leasehold properties	13	**38,852**	21,775	**–**	–
– Plant and equipment	14	**13,740**	41,764	**–**	–
		52,592	63,539	**–**	–
Intangible assets	15	**1,267**	2,067	**–**	–
Investments in subsidiaries	16	**–**	–	**4**	4
Interest in an associate	17	**–**	–	**–**	–
		53,859	65,606	**4**	4
Current assets					
Inventories	18	**352**	803	**–**	–
Trade and other receivables	19	**27,141**	38,014	**51**	15,209
Cash and cash equivalents	20	**612**	812	**4**	3
		28,105	39,629	**55**	15,212
Current liabilities					
Trade and other payables	21	**(42,433)**	(41,389)	**(9,098)**	(9,068)
Bank overdraft, unsecured	20	**(49)**	–	**–**	–
Short-term bank borrowings, secured	22	**(45,000)**	(45,000)	**–**	–
Obligations under a finance lease, current portion	23	**(43)**	(264)	**–**	–
Current taxation	24(a)	**(11,846)**	(11,846)	**–**	–
		(99,371)	(98,499)	**(9,098)**	(9,068)
Net current (liabilities)/assets		**(71,266)**	(58,870)	**(9,043)**	6,144
Total assets less current liabilities		**(17,407)**	6,736	**(9,039)**	6,148
Non-current liabilities					
Obligations under a finance lease, non-current portion	23	**–**	(20)	**–**	–
NET (LIABILITIES)/ASSETS		**(17,407)**	6,716	**(9,039)**	6,148
CAPITAL AND RESERVES					
Share capital	25	**64,200**	64,200	**64,200**	64,200
Reserves	27	**(81,607)**	(57,484)	**(73,239)**	(58,052)
TOTAL (DEFICIT)/EQUITY		**(17,407)**	6,716	**(9,039)**	6,148

Approved and authorised for issue by the board of directors on 4 May 2006

Chung Chi Mang **Zhong Zhi Gang**

The notes on pages 29 to 60 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005 (Expressed in Renminbi)

	2005 **RMB'000**	2004 RMB'000
Shareholders' equity at 1 January	**6,716**	6,177
Exchange differences on translation of financial statements of overseas subsidiaries	**(125)**	–
(Loss)/profit for the year	**(23,998)**	539
Shareholders' equity at 31 December	**(17,407)**	6,716

The notes on pages 29 to 60 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005 (Expressed in Renminbi)

	Note	2005 RMB'000	2005 RMB'000	2004 RMB'000	2004 RMB'000
Operating activities					
(Loss)/profit from ordinary activities before taxation		**(23,998)**		539	
Adjustments for:					
Amortisation of land lease premium for property held for own use		**175**		222	
Depreciation of other property, plant and equipment		**3,979**		3,568	
Amortisation of intangible assets		**800**		800	
Impairment loss on fixed assets		**8,000**		8,600	
Impairment loss/(reversal of impairment loss) for bad and doubtful debts		**19,995**		(7,845)	
Write-back of provision for slow-moving and obsolete inventories		**(4,715)**		(5,604)	
Inventories written off		**67**		–	
Finance costs		**3,761**		2,564	
Interest income		**(5)**		(96)	
Loss/(profit) on disposal of fixed assets		**54**		(221)	
(Reversal of impairment loss)/impairment loss for amount due from an associate		**(3,402)**		1,034	
Operating profit before changes in working capital		**4,711**		3,561	
Decrease in inventories		**5,099**		5,004	
Increase in debtors, deposits and prepayments		**(9,055)**		(9,226)	
Increase in creditors and accrued charges		**3,899**		1,159	
Increase in deposits and receipts in advance from customers		**2,880**		336	
Decrease in other tax payable		**(4,584)**		(12,315)	
Net cash from/(used in) operating activities			**2,950**		(11,481)
Investing activities					
Payment for the acquisition of property, plant and equipment		**(1,293)**		(379)	
Proceeds from sales of property, plant and equipment		**8**		6,201	
Net repayments/(advances to) from the associate		**3,402**		(1,034)	
Decrease in pledged bank deposits		**–**		10,867	
Interest received		**5**		96	
Net cash from investing activities			**2,122**		15,751
Financing activities					
Net repayments to the director		**(1,151)**		–	
Repayment of bank loans		**–**		(953)	
Capital element of finance lease rentals paid		**(241)**		(216)	
Interest element of financial lease rentals paid		**(53)**		(54)	
Interest paid		**(3,708)**		(2,510)	
Net cash used in financing activities			**(5,153)**		(3,733)
Net (decrease)/increase in cash and cash equivalents			**(81)**		537
Cash and cash equivalents at 1 January			**812**		275
Effect of foreign exchange rate changes			**(168)**		–
Cash and cash equivalents at 31 December	20		**563**		812

The notes on pages 29 to 60 form part of these financial statements.

1. CORPORATION INFORMATION

Everpride Biopharmaceutical Company Limited (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 effect from 20 July 2001.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its Interpretations promulgated by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the GEM. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised IFRS to the current and prior accounting periods reflected in these financial statements is provided in note 3.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

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

At 31 December 2005, the Group had net liabilities of RMB17,407,000 and net current liabilities of RMB71,266,000 as at 31 December 2005, including the Group's short-term bank loans of approximately RMB36,000,000 which have been overdue as at the date of authorisation for issue of these financial statements. The Group incurred a loss from operating activities of RMB23,998,000 for the year ended 31 December 2005.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity position and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted the following measures:

(a) Mr. Chung Chi Mang, a director and controlling shareholder of the Company, has undertaken to the Company to provide continuing financial support to the Group so as to enable the Group to continue its day-to-day operations as a viable going concern notwithstanding any present or future financial difficulties experienced by the Group.

(b) The directors of the Company are in ongoing negotiations with the Group's bankers to reschedule the repayment of certain borrowings due from the Group and to seek their ongoing support to the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(c) The directors of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, a private placement, an open offer or a rights issue of new shares of the Company.

(d) The directors of the Company continue to take action to tighten cost controls over factory overheads and various general and administrative expenses, and are actively seeking new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

In the opinion of the directors of the Company, in light of the measures taken to date, together with expected results of other measures in progress, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable going concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity position at 31 December 2005.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and report amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 31.

The significant accounting policies adopted by the Group set out below have been applied consistently to those used in previous years, except those disclosed in note 3.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associate

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

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. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised gains arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised gains arising from transactions with the associate are eliminated to the extent of the Group's interest in the entity. 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.

(d) Investments in subsidiaries

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (see note 2(k)).

(e) Property, plant and equipment and depreciation

(i) Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

(ii) The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment and depreciation *(Continued)*

(iii) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(iv) Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, being no more than 50% after the date of completion/acquisition.

– Machinery and equipment	10 years
– Furniture and office equipment	8 years
– Motor vehicles	5 – 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(v) Construction in progress represents buildings and various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (note 2(k)). Cost comprises direct costs of construction incurred during the periods of construction.

Construction in progress is transferred to buildings, and machinery and equipment when the asset is substantially ready for its intended use.

(f) Leased assets

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from previous lessee, or at the date of construction of those buildings, if any.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets *(Continued)*

(ii) 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 fixed assets 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 over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Finance charges implicit in the lease payments are charged to profit or loss 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. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equity 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. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(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 (see below) and impairment losses (see note 2 (k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(ii) Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see note 2(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

(iii) Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

(iv) Amortisation of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible assets unless such lives are indefinite. Intangible assets with an indefinite life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are 5 to 10 years.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Inventories

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

The cost of inventories is calculated based on the weight average costing method (which approximates the average actual cost) 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 the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(k)).

(j) Cash and cash equivalents

Cash and cash equivalents comprise cast 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 consolidated cash flow statement.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets

The carrying amounts of the Group's assets, other than inventories (see note 2(h)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated (see note 2(k))(i)).

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their 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 inflow 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 in respect of receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

An impairment loss reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Revenue recognition

Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deductible of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(o) Expenses

(i) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Net finance costs

Net finance costs comprise interest payable on borrowings using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses that are recognised in the income statement.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(iii) Advertising and promotion costs

Cost of advertising and promotion are expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax

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 profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the 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.

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 credits, that is, those differences are taken into account if they relate to the same taxation 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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, 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 realisable 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 profits will be available.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

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 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; or

– 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 tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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 expenditure 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary asset and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

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

(s) 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 (being members of key management personnel, significant shareholder and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Segment reporting *(Continued)*

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, tax balances, corporate and financing expenses.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group after the adoption of these new or revised IFRSs have been summarised in note 2.

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

Related party disclosures (IAS 24 "Related party disclosure")

The definition of related parties under IAS 24 as disclosed in note 2(s) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions.

With effect from 1 January 2005, in order to comply with IAS 24, the Group has to make further disclosure of key management personnel compensation and contributions to post-retirement benefit plans.

4. 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.

5. 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.

6. OTHER OPERATING (LOSS)/INCOME

	2005 **RMB'000**	2004 RMB'000
Sample income	**67**	199
Inventories written off	**(67)**	–
Write-back of provision for slow-moving and obsolete inventories	**4,715**	5,604
(Impairment loss)/reversal of impairment loss for bad and doubtful debts	**(19,995)**	7,845
(Loss)/profit on disposal of fixed assets	**(54)**	221
	(15,334)	13,869

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

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

(a) Net finance costs

	2005 **RMB'000**	2004 RMB'000
Interest on bank advances and other borrowings		
– wholly repayable within five years	**3,708**	2,362
– after five years	**–**	148
Finance charges on obligations under a finance lease	**53**	54
Finance expenses	**3,761**	2,564
Net exchange (gain)/loss	**(445)**	18
Interest income	**(5)**	(96)
	3,311	2,486

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

(b) Staff costs

	2005 RMB'000	2004 RMB'000
Contributions to defined contribution plans	**971**	611
Salaries, wages and other benefits	**6,750**	6,811
Total staff costs	**7,721**	7,422

(c) Other items

	2005 RMB'000	2004 RMB'000
Cost of inventories sold	**10,227**	9,518
Auditors' remuneration	**416**	449
Depreciation		
– owned assets	**3,880**	3,365
– an asset held under finance lease	**99**	203
Amortisation of land lease premium	**175**	222
Amortisation of intangible assets	**800**	800
Research and development costs	**1,012**	477
Advertising and promotion expenses	**12,799**	11,983
Operating lease charges: minimum lease payments		
– property rental	**2,011**	2,050

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising from Hong Kong during the years ended 31 December 2005 and 2004.

No provision for PRC enterprise income tax has been made as the Company's PRC subsidiary has accumulated tax losses brought forward which exceeds the estimated assessable profits for the years ended 31 December 2005 and 2004.

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

	2005 RMB'000	2004 RMB'000
(Loss)/profit before tax	**(23,998)**	539
Notional tax on (loss)/profit before tax, calculated at the statutory rate of 33%	**(7,919)**	178
Tax effect of non-deductible expenses	**9,813**	3,812
Tax effect of non-taxable income	**(2,809)**	(4,438)
Tax effect of unused tax losses not recognised	**380**	476
Tax effect of prior year's tax losses utilised this year	**(308)**	(1,008)
Tax effect of reduced tax rate	**843**	980
Actual tax expense	**–**	–

9. DIRECTORS' REMUNERATION

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

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2005 Total RMB'000
Executive directors:				
Chung Chi Mang	–	**1,007**	**13**	**1,020**
Zhong Zhi Gang	–	**271**	**12**	**283**
Xie Xiaodong	–	**271**	**12**	**283**
Mu Yong	–	–	–	–
Independent non-executive directors:				
Chan On Ta Yuen	**68**	–	–	**68**
Ho Leong Leong, Lawrence	**67**	–	–	**67**
Lam Man Sum, Albert	**59**	–	–	**59**
	194	**1,549**	**37**	**1,780**

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2004 Total RMB'000
Executive directors:				
Chung Chi Mang	–	1,226	13	1,239
Zhong Zhi Gang	–	278	13	291
Xie Xiaodong	–	278	13	291
Mu Yong	–	–	–	–
Independent non-executive directors:				
Chan On Ta Yuen	70	–	–	70
Ho Leong Leong, Lawrence	69	–	–	69
	139	1,782	39	1,960

For the years ended 31 December 2005 and 2004, no emoluments was paid to the directors as an inducement to join or upon joining the Company or as compensation for loss of office. There was no waiver of any emoluments by the directors for the year ended 31 December 2005 and 2004.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2004: three) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other two (2004: two) individuals are as follows:

	2005 **RMB'000**	2004 RMB'000
Salaries and other emoluments	**339**	698
Retirement scheme contributions	**16**	22
	355	720

The emoluments of two (2004: two) individuals with the highest emoluments are within the following bands:

	2005 **RMB'000**	2004 RMB'000
Nil – RMB1,040,000 (approximately equivalent to HK$1,000,000)	**2**	2

For the years ended 31 December 2005 and 2004, no emoluments was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of RMB15,187,000 (2004: a profit of RMB852,000) which has been dealt with in the financial statements of the Company.

12. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

the calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB23,998,000 (2004: profit of RMB539,000) and the weighted average of 600,000,000 ordinary shares (2004: 600,000,000) ordinary shares in issue during the year.

(b) Diluted (loss)/earnings per share

The diluted (loss)/earnings per share is not presented because there was no dilutive potential ordinary shares in existence during the years ended 31 December 2005 and 2004.

13. LEASEHOLD PROPERTIES

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

	Interests in leasehold land held for own use under operating leases RMB'000	Buildings held for own use carried at cost RMB'000	Total fixed assets RMB'000
Cost			
At 1 January 2004	11,292	21,907	33,199
Additions	–	87	87
Disposals	(3,253)	(4,487)	(7,740)
At 31 December 2004	8,039	17,507	25,546
At 1 January 2005	8,039	17,507	25,546
Exchange adjustments	–	(3)	(3)
Transfer from construction-in-progress	–	26,490	26,490
At 31 December 2005	8,039	43,994	52,033
Accumulated amortisation and depreciation			
At 1 January 2004	563	2,635	3,198
Charge for the year	222	662	884
Written back on disposals	(98)	(213)	(311)
At 31 December 2004	687	3,084	3,771
At 1 January 2005	687	3,084	3,771
Exchange adjustments	–	(2)	(2)
Charge for the year	175	937	1,112
Impairment loss	–	8,300	8,300
At 31 December 2005	862	12,319	13,181
Net book value			
At 31 December 2005	7,177	31,675	38,852
At 31 December 2004	7,352	14,423	21,775

13. LEASEHOLD PROPERTIES *(Continued)*

(a) *(Continued)*

Impairment loss

During the year ended 31 December 2005, the Group suffered a significant loss for the year, thus the Group assessed the recoverable amount of factory buildings. Based on this assessment, the carrying amount of factory buildings was written down by RMB8,300,000. The estimate of recoverable amount was based on the fair value of the factory buildings, which determined by reference to the recent observable market prices for similar buildings in Taigu County of Shanxi Province in the PRC.

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

	The Group	
	2005	2004
	RMB'000	RMB'000
In the PRC		
– long leases	**1,125**	1,161
– medium-term leases (note)	**6,052**	6,191
	7,177	7,352

Note:

Included in interests in leasehold land held for own use under operating leases is the land use right under medium-term lease which comprises land use fees paid to the government of Taigu Country for the rights 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.

(c) Leasehold properties of approximately RMB38,781,000 (2004: RMB20,500,000) have been pledged to banks to secure bank loan facilities granted to the Group.

14. PLANT AND MACHINERY

(a) Movements in plant and machinery 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 1/1/2004	10,026	3,061	10,520	34,490	58,097
Additions	9	74	–	209	292
Transfer	419	–	–	(419)	–
Disposals	–	–	(445)	–	(445)
At 31/12/2004	10,454	3,135	10,075	34,280	57,944
At 1/1/2005	10,454	3,135	10,075	34,280	57,944
Exchange adjustments	–	(12)	(42)	–	(54)
Additions	43	–	390	860	1,293
Transfer	243	(17)	–	(26,750)	(26,490)
Disposals	–	(16)	(55)	–	(71)
At 31/12/2005	10,740	3,124	10,368	8,390	32,622
Accumulated amortisation and depreciation					
At 1/1/2004	699	1,664	2,311	–	4,674
Charge for the year	1,119	578	1,209	–	2,906
Written back on disposals	–	–	–	–	–
Impairment loss	–	–	–	8,600	8,600
At 31/12/2004	1,818	2,242	3,520	8,600	16,180
At 1/1/2005	1,818	2,242	3,520	8,600	16,180
Exchange adjustments	–	(5)	(27)	–	(32)
Charge for the year	1,188	626	1,228	–	3,042
Reversal of impairment loss	–	–	–	(300)	(300)
Written back on disposals	–	(8)	–	–	(8)
At 31/12/2005	3,006	2,855	4,721	8,300	18,882
Net book value					
At 31/12/2005	7,734	269	5,647	90	13,740
At 31/12/2004	8,636	893	6,555	25,680	41,764

14. PLANT AND MACHINERY

(a) *(Continued)*

Impairment loss

During the year ended 31 December 2004, 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) As at 31 December 2005, the net book value of a motor vehicle held under a finance lease of the Group was approximately RMB410,000 (2004: RMB509,000).

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

	2005 RMB'000	2004 RMB'000
Construction costs of buildings	**8,390**	32,840
Cost of machinery pending installation	**–**	1,440
	8,390	34,280

Construction-in-progress represents the Group's factory buildings under construction. 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 13).

15. INTANGIBLE ASSETS

Movements in intangible assets of the Group are as follows:

	The Group	
	2005 RMB'000	2004 RMB'000
Cost		
At 1 January and 31 December	**5,000**	5,000
Accumulated amortisation and impairment losses		
At 1 January	**2,933**	2,133
Charge for the year	**800**	800
Impairment loss	**–**	–
At 31 December	**3,733**	2,933
Net book value		
At 31 December	**1,267**	2,067

Intangible assets represents exclusive rights acquired by the Group to produce and sell 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.

16. INVESTMENTS IN SUBSIDIARIES

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

	2005 **RMB'000**	2004 RMB'000
Unlisted shares, at cost	**56,164**	57,784
Less: Accumulated impairment losses	**(56,160)**	(57,780)
	4	4

The particulars of all subsidiaries of the Company at 31 December 2005 were as follows:

Name of company	Place of incorporation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest 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.*

17. INTEREST IN AN ASSOCIATE

	The Group	
	2005	2004
	RMB'000	RMB'000
Share of net assets	**–**	–
Due from associate	**10,578**	13,980
Less: Accumulated impairment losses	**(10,578)**	(13,980)
	–	–
	–	–

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

Details of the associate as at 31 December 2005 were as follows:

Name of company	Place of incorporation	Registered capital	Proportion of ownership interest: Group's effective interest	held by the company	held by the subsidiary	Principal activities
Shanxi Everpride Medical and Healthily 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.*

18. INVENTORIES

	The Group	
	2005	2004
	RMB'000	RMB'000
Raw materials, at cost	**12,744**	17,493
Finished goods, at cost	**250**	667
	12,994	18,160
Less: Provision for slow-moving and obsolete inventories	**(12,642)**	(17,357)
	352	803

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due from a subsidiary*	**–**	–	**12**	15,201
Rental and other deposits	**710**	622	**–**	–
Accounts receivable	**23,822**	30,737	**–**	–
Prepayments and other receivables	**2,609**	6,655	**39**	8
	27,141	38,014	**51**	15,209

* *The amount due from the subsidiary is unsecured, interest free and has no fixed terms of repayments.*

All of the trade and other receivables, apart from the amount due from the subsidiary, 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	
	2005	2004
	RMB'000	RMB'000
0 to 30 days	**9,094**	14,135
31 to 60 days	**2,921**	10,328
61 to 90 days	**799**	1,530
91 to 180 days	**6,161**	2,152
181 to 365 days	**12,052**	2,462
Over 365 days	**56,403**	45,539
	87,430	76,146
Less: Impairment loss for bad and doubtful debts	**(63,608)**	(45,409)
	23,822	30,737

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

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank deposits, denominated in				
– Hong Kong dollars and United States dollars	**18**	12	**4**	3
– Renminbi	**594**	800	**–**	–
Cash and cash equivalents in the balance sheet	**612**	812	**4**	3
Bank overdraft, unsecured	**(49)**	–		
Cash and cash equivalents in consolidated cash flow statement	**563**	812		

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

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts payable	**1,416**	956	**–**	–
Deposits and receipts in advance from customers	**12,774**	9,894	**–**	–
Accrued expenses and other payables	**17,332**	13,893	**1,569**	1,805
Other tax payable	**10,801**	15,385	**–**	–
Due to subsidiaries*	**–**	–	**5,801**	5,968
Due to a director*	**110**	1,261	**1,728**	1,295
	42,433	41,389	**9,098**	9,068

* *The amounts due to the subsidiaries and the director are unsecured, non-interest bearing and have no fixed terms of repayment.*

All of the trade and other payables, apart from the amounts due to the subsidiaries and the director, are expected to be settled within one year.

21. TRADE AND OTHER PAYABLES *(Continued)*

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

	The Group	
	2005	2004
	RMB'000	RMB'000
0 to 30 days	**682**	147
31 to 60 days	**153**	98
61 to 90 days	**137**	204
91 to 180 days	**77**	–
181 to 365 days	**32**	117
Over 365 days	**335**	390
	1,416	956

22. SHORT-TERM BANK BORROWINGS, SECURED

Short-term bank borrowings bear interest at rates of 8,0287% to 9.5753% (2004: 6.6906% to 6.9174%) per annum.

The banking facilities of certain subsidiaries are secured by mortgage over their leasehold properties with an aggregate carrying amount of approximately RMB38,781,000 (2004: RMB20,500,000) and construction-in-progress with an aggregate carrying amount of RMB90,000 (2004: RMB24,240,000). Such banking facilities, amounting to approximately RMB45,000,000 (2004: RMB45,000,000), were utilised to the extent of approximately RMB45,000,000 (2004: RMB45,000,000) at 31 December 2005.

23. OBLIGATIONS UNDER A FINANCE LEASE

At 31 December 2005, the Group had obligations under a finance lease repayable as follows:

	The Group					
	2005			2004		
	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	**43**	**4**	**47**	264	51	315
After 1 year but within 2 years	**–**	**–**	**–**	20	4	24
	43	**4**	**47**	284	55	339

24. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2005 **RMB'000**	2004 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	
	2005 **RMB'000**	2004 RMB'000
Deferred tax liabilities/(assets) arising from:		
Depreciation allowances in excess of related depreciation	**60**	109
Provision for bad and doubtful debts	**(21,539)**	(18,600)
Provision for obsolete inventories	**(4,172)**	(5,728)
Tax losses	**(6,809)**	(6,852)
	(32,460)	(31,071)

At the balance sheet 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 RMB3,501,000 (2004: RMB3,839,000) and RMB3,308,000 (2004: RMB3,013,000) will expire in three 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.

25. 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 years ended 31 December 2005 and 2004, there was no change in the Company's authorised and issued share capital.

26. 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 180,000,001–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 years ended 31 December 2005 and 2004 and as at 31 December 2005 and 2004 no eligible employee had been granted any option to subscribe for shares in the company.

27. 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 2004	7,195	9,025	(97)	(74,146)	(58,023)
Net profit for the year	–	–	–	539	539
At 31 December 2004 and 1 January 2005	7,195	9,025	(97)	(73,607)	(57,484)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	(125)	–	(125)
Net loss for the year	–	–	–	(23,998)	(23,998)
At 31 December 2005	7,195	9,025	(222)	(97,605)	(81,607)

Included in the figure for the accumulated losses is an amount of approximately RMB200,000 (2004: 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 principles 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 hand 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 2005 and 2004. 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.

27. RESERVES *(Continued)*

(b) The Company

	Contributed surplus (note (i)) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2004	56,774	(115,678)	(58,904)
Net loss for the year	–	852	852
At 31 December 2004 and 1 January 2005	56,774	(114,826)	(58,052)
Net profit for the year	–	(15,187)	(15,187)
At 31 December 2005	56,774	(130,013)	(73,239)

In the opinion of the Company's directors, as at 31 December 2005 and 2004, 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.

28. 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 monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

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 2005, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately RMB971,000 (2004: RMB611,000) which was included in the staff costs.

29. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9, is as follows:

	2005 **RMB'000**	2004 RMB'000
Short-term employee benefits	**1,907**	2,408
Retirement scheme contributions	**45**	51
Total	**1,952**	2,459

30. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	The Group	
	2005 **RMB'000**	2004 RMB'000
Contracted for		
– acquisition of machinery and equipment	**2,900**	2,900
– construction of ancillary factory buildings	**301**	301
	3,201	3,201

(b) At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2005 **RMB'000**	2004 RMB'000
Within 1 year	**250**	1,307
After 1 year but within 5 years	**104**	79
	354	1,386

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.

31. FINANCIAL INSTRUMENTS

The Group's financial assets include cash and cash equivalents, trade and other receivables. The Group's financial liabilities include short-term bank borrowings, trade and other payables.

The Group does not have nor has issued financial instruments for trading purposes. Exposure to credit, interest, and currency risks arises in the normal course of the Group's business.

(a) Credit risks

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

The interest rates and terms of repayment of the Group's bank borrowings are disclosed in note 22.

(c) Foreign currency risk

A substantial portion of the Group's revenue-generating operations and its expenses are transacted in Renminbi. Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC. On 21 July 2005, with the authorisation from the PRC government, the PBOC announced that the PRC government reformed the exchange rate regime by moving into a manged floating exchange rate regime based on market supply and demand with reference to a basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

(d) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2004 and 2005.

(i) Cash and cash equivalents, trade and other receivables, trade and other payables (current portion)

The carrying values approximate their fair values because of the short maturities of these items.

(ii) Bank loans

The carrying amount of bank loans approximates their fair value based on the borrowing rates currently available for bank loan with similar terms and maturities.

(e) 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.

31. FINANCIAL INSTRUMENTS *(Continued)*

(f) 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.

32. ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write offs would be higher than estimated.

(b) Impairment for non-current assets

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "impairment of Assets". The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(c) Provision for diminution in value of inventories

If the costs of inventories fall below their net realisable values, a provision for diminution in value of inventories is recognised. Net realisable value represents 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. The Group bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion and other distribution costs were to be higher than estimated, the actual provision for diminution in value of inventories could be higher than estimated.

33. COMPARATIVE FIGURES

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